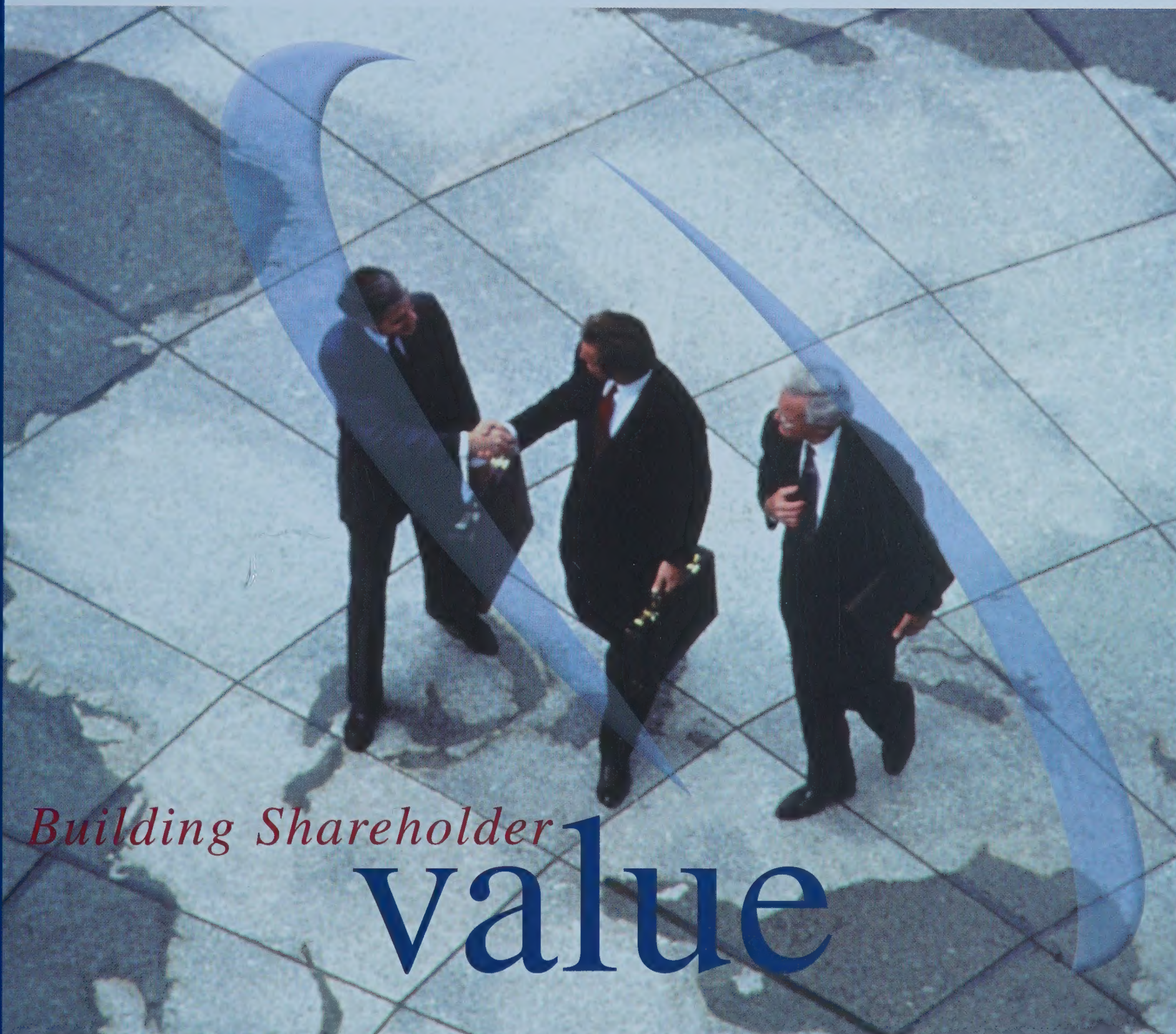
HUB International



Building Shareholder value

ANNUAL 2001 REPORT

Hub International Limited [Toronto Stock Exchange symbol HBG] is one of North America's leading insurance brokerage firms. Hub International Limited offers retail and wholesale property/casualty, life, health, employee benefits and risk management services from headquarters in Chicago and offices in over 100 other locations including New York, Southern California, Michigan, Boston, Dallas, Montreal, Toronto and Vancouver.

The company's brokerages are licensed in every province and state in North America. As a member of the Worldwide Broker Network, Hub International Limited provides global insurance solutions through facilities in over 40 countries.

Building on strength

OPERATIONAL HIGHLIGHTS

May 31st

COMPANY CLOSED ON THE PURCHASE OF J. P. FLANAGAN CORPORATION. FLANAGAN, WITH 2001 REVENUES OF $8.5M, WAS THE FIRST OF THREE LARGE U.S. ACQUISITIONS MADE IN 2001.

June 30th

COMPANY CLOSED ON THE PURCHASE OF KAYE GROUP INC. KAYE, THE 29TH LARGEST BROKER IN THE U.S.*, BROUGHT HUB INTERNATIONAL LIMITED SIGNIFICANT SCALE AND MANAGEMENT TALENT.

July 1st

COMPANY CLOSED ON THE PURCHASE OF BURNHAM INSURANCE GROUP, THE 68TH LARGEST BROKER IN THE U.S.* THE ACQUISITION ADDED STRONG MIDWESTERN PRESENCE AND EXPERTISE IN THE FINANCIAL INSTITUTIONS SECTOR.

August 13th

THE FIRST RESEARCH ANALYST REPORT ON THE COMPANY WAS PUBLISHED BY COCHRAN, CARONIA & CO.

December 31st

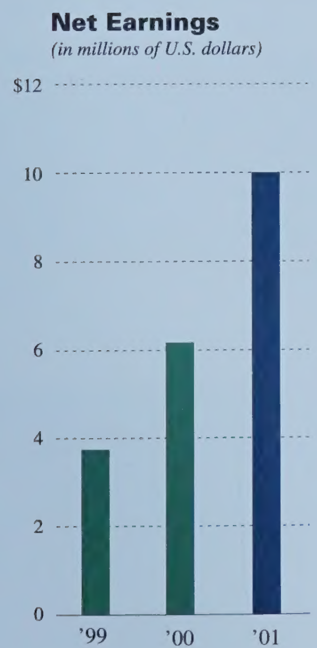
COMPANY ANNOUNCED IT HAD SIGNED A LETTER OF INTENT TO SELL OLD LYME INSURANCE COMPANIES, UNDERWRITING SUBSIDIARIES OF KAYE GROUP INC.

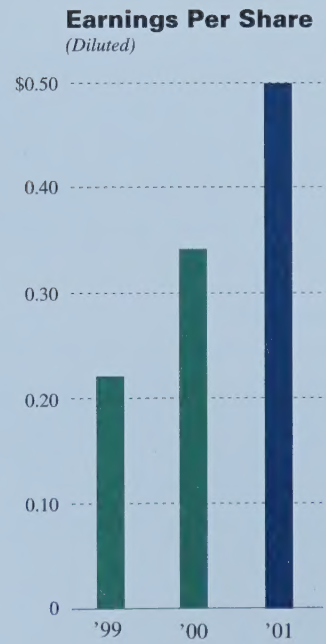
COMPANY ENDED 2001 WITH RECORD BREAKING ANNUAL EARNINGS AND REVENUES OF $0.50 PER SHARE—DILUTED AND $154.0M, RESPECTIVELY.

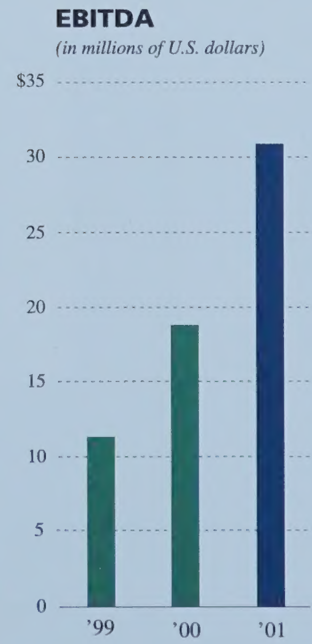
*as per July 16, 2001 issue of *Business Insurance* Magazine

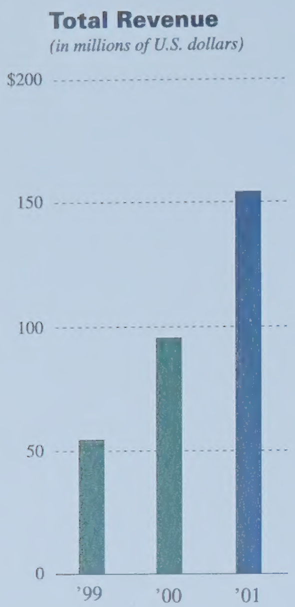
The Company's consolidated financial statements have historically been expressed in Canadian dollars. This report is expressed in U.S. dollars.

(in thousands of U.S. dollars except share and per share data)	2001	2000	1999
Revenue	**$153,993**	$ 95,240	$ 54,097
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**$ 30,702**	$ 18,761	$ 11,343
EBITDA margin	**20%**	20%	21%
Net earnings	**$ 10,005**	$ 6,138	$ 3,744
Total assets	**$502,296**	$206,157	$171,202
Common shareholders' equity	**$135,271**	$112,212	$105,462
Common shares outstanding—year-end (000's)	**21,656**	18,528	18,308
Weighted average shares outstanding (000's)—Basic	**19,012**	18,327	16,941
Weighted average shares outstanding (000's)—Diluted	**20,105**	18,327	16,941
Per Share			
Net earnings—Basic	**$ 0.53**	$ 0.34	$ 0.22
Net earnings—Diluted	**$ 0.50**	$ 0.34	$ 0.22
Book value	**$ 6.25**	$ 6.06	$ 5.76









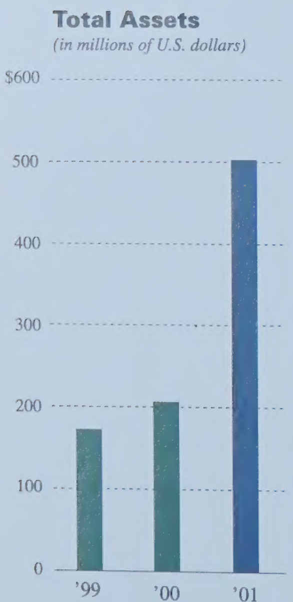
2001 was a year of considerable accomplishment for Hub International and, with a favorable environment for insurance brokers and a solid base to build upon, 2002 holds the promise of continued achievement. Last year we grew our business both organically, by increasing our internal sales, and through several key strategic acquisitions in the United States. Our U.S. additions are already making a significant contribution as we work to attain our goals for 2002 and beyond. Today, with a middle market client base, but serving accounts of all sizes in both commercial and personal lines, we are a leading insurance broker in North America.

A Favorable Market

After more than a decade of relaxed underwriting standards and inadequate premium pricing by insurers, insurance rates generally began trending upward in the latter part of 2000 and continuing through 2001. Today we are in a "tight" market, characterized not only by generally higher premiums, but also by closer scrutiny of risks by both primary insurance and reinsurance carriers, resulting in a more stringent and selective renewal process.

Building Shareholder value

In this environment our clients, more alert than ever to their exposure to risk, need us to provide critical insurance intelligence and risk management guidance. Our scale has allowed us to establish and maintain strong relationships with insurers, creating an opportunity for us to win new clients when our smaller competitors lack the relationships to arrange suitable insurance coverage at competitive rates. This opportunity for growth through new business extends to both the property and casualty and the business health and life insurance sectors.



Partners in Growth

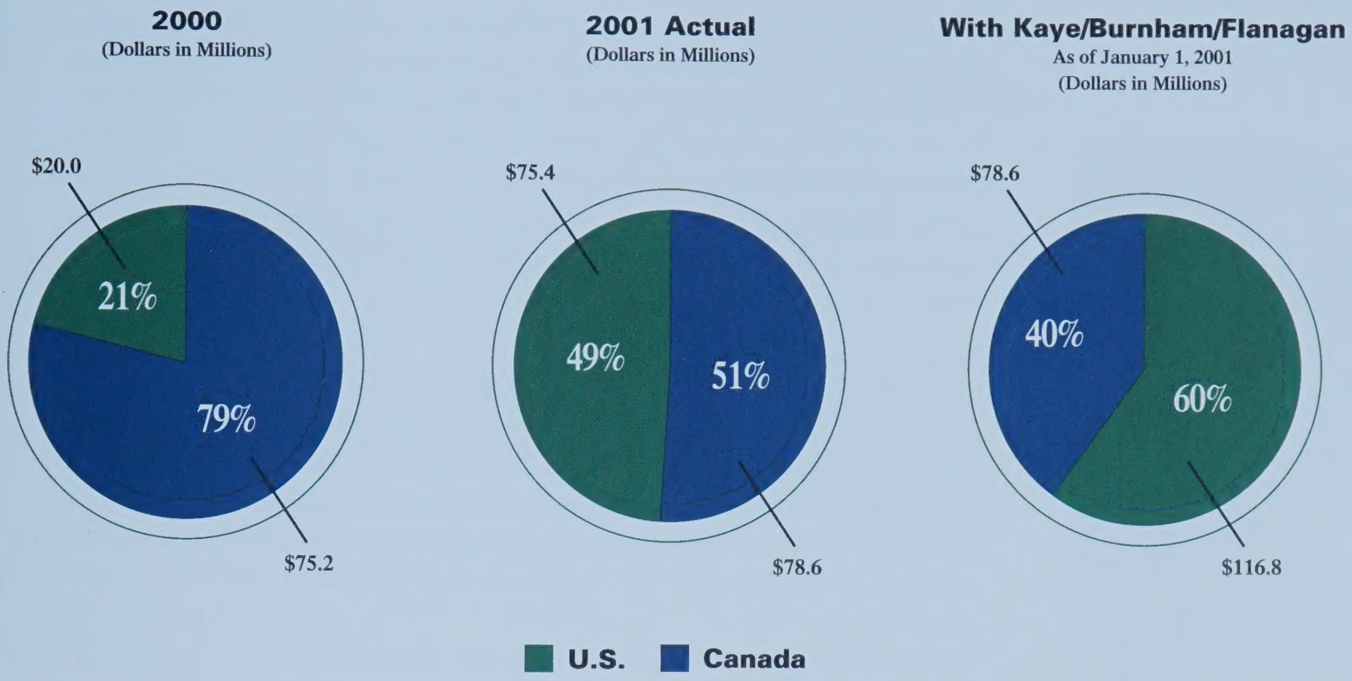
As we expand our presence in the United States and solidify our business, we are introducing ourselves and our products and services to as many new clients as possible. We also are embarking on a program to heighten our profile with our existing shareholders and to broaden our shareholder base. Consequently, we recently announced our initial public offering in the United States and our intention to simultaneously list our shares on the New York Stock Exchange (symbol HBG).

Financial Performance

Financial performance in 2001 was strong in all areas.

- Net earnings grew by 63% to $10.0 million from $6.1 million in 2000.
- Net earnings per share—diluted grew 47% to $0.50 per share from $0.34 per share in 2000.
- Earnings before interest, tax, depreciation and amortization (EBITDA) grew to $30.7 million from $18.8 million, an increase of 64%.
- Revenues increased 62% to $154.0 million from $95.2 million.

We are extremely proud of our financial performance; however, we are committed to continued improvement.



Sale of Underwriting Subsidiary

On December 31, 2001, we announced an agreement to sell our insurance underwriting subsidiaries, Old Lyme Insurance Company of Rhode Island, Inc. and Old Lyme Insurance Company, Limited, to a subsidiary of Fairfax Financial Holdings Limited, our largest shareholder. Subject to regulatory approval, we contemplate a closing in the second quarter of 2002.

Under the arrangement we will continue to manage Old Lyme through our subsidiary, Kaye Group, and access to Old Lyme's insurance products will remain an important component of our client service capabilities. This transaction will align our underwriting position with that of other major public insurance brokers, that is, participation in underwriting opportunities by affiliations or contingent profit sharing arrangements rather than through direct ownership of insurance companies and the assumption of risk.

"2001 was a story of deepening and broadening our capabilities in the United States."

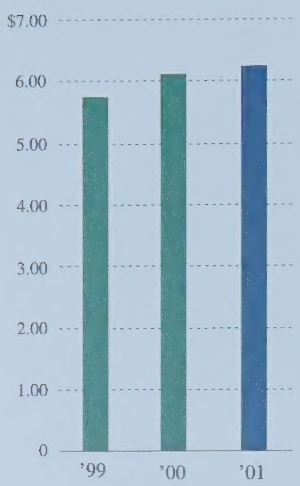
The September 11, 2001 terrorist attacks have had a profound effect on all of us in the insurance business. Hundreds of insurance professionals were among the victims, leaving countless others to mourn a relative, an industry colleague, friend or acquaintance.

As we prepare this report, the psychological and economic recovery is underway. At the same time, businesses and professionals have begun to reassess the catastrophic exposure they face, and the resulting costs associated with developing a well defined risk management program.

For our industry, the consequences of 9/11 are not yet fully resolved. Even before 9/11, insurance costs were increasing, coverages were being restricted and the general economy was headed into a recession. The terrorist acts suddenly and dramatically accelerated those trends. The result is that we, as insurance brokers, have a special role to play in advising and reassuring our clients.

Today, businesses and individuals rely on us more than ever to help them identify and analyze their risks and counsel them on selecting the most prudent way to address those exposures. Responding to this need is both a mandate and

Book Value Per Share



Building our U.S. Platform

Our 2000 and 2001 U.S. acquisitions strengthened our market presence in the Northeast and Midwest, and as a result, over 50% of our revenues are now derived from the U.S. We plan for further expansion in strategically important geographic regions, and, of course, we will continue to integrate smaller acquisitions into our existing "hubs."

Our U.S. growth is governed by adherence to three key strategic goals: *(1) differentiating us from our peer brokers, (2) maintaining established criteria for acquisitions and, (3) making acquisitions that create shareholder value.*

Differentiation

Our model is tailored to our philosophy that clients are best served by our understanding of their unique needs and that business is best built on market intelligence, products and services that meet demand, talent, and naturally, hard work. It is a combination of characteristics that we think differentiates our "hub" model from other insurance brokers:

- **Decentralized Approach.** Our decentralized approach allows us to react to regional market conditions while still centrally managing the growth and profitability of our business with consistent standards.
- **Variety.** Our broad array of products and services, which we offer through a variety of distribution channels, allows us to maintain and maximize existing business relationships and attract new clients.
- **Scale.** Our scale translates into strong relationships with insurers.
- **Experience and Resources.** Our experience, contacts in the industry and resources are available to all of our brokerages.

It adds up to strength, flexibility and agility—all critical to sharpening our edge in a very competitive environment.

Acquisition Criteria

We carefully select acquisition candidates to ensure that we have the right fit and that together we will be able to take advantage of opportunities. We look for:

- **Talent and Experience.** An experienced and talented management team that is prepared to make a long-term commitment to executing our strategic business plan.
- **Ability to Make Acquisitions.** The ability to identify, acquire and seamlessly integrate smaller brokerages in the region.
- **Strategic Fit.** Specialization in certain products or services that may be beneficial to or complement our other brokerages.
- **Performance.** A demonstrated record of organic growth and profitability.

R. Craig Barton,
President, Canadian Operations
Richard A. Gulliver,
President & Chief Operating Officer
Bruce D. Guthart,
President, U.S. Operations
Hub International Limited

Shareholder Value

There are no guarantees that any particular acquisition will meet all of our expectations. However, by consistently applying our acquisition standards, we can increase the likelihood of adding value with every addition, and minimize the risk of disappointment. Here are some important components of our approach:

- **Persistence and Discipline.** We spend time meeting with potential candidates, educating them to make sure they understand our story and we understand theirs. There are many willing sellers, but an acquisition must add value and have the potential to deliver bottom line growth.

- **Quality and Fit.** Culture counts. We promote local autonomy, but their operating philosophy and practices must meld comfortably with the rest of our organization. We are acquiring long-term relationships, not just revenue streams. If the former are not working, the latter will run dry.
- **Customer and Employee Focus.** We are in the business of sales and service, and the principals and professionals of the firms we acquire remain the firm's "face" for their clients and prospects. Our goal is to continue to maintain customer confidence and high employee morale.

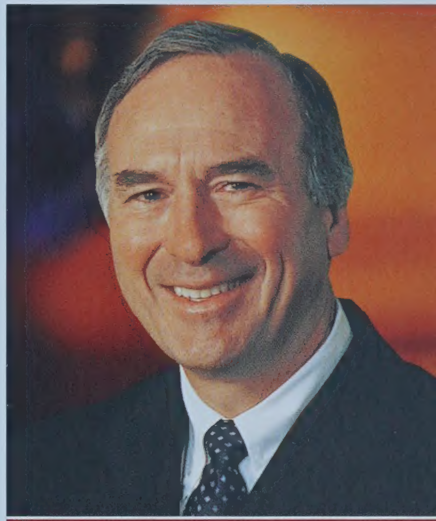
Kaye, Burnham and Flanagan

Hub International was born in Canada, and our Canadian brokerages remain an integral part of our operations. Under the leadership of Craig Barton, President of our Canadian operations, we are committed to seeking out new opportunities for developing our Canadian business.

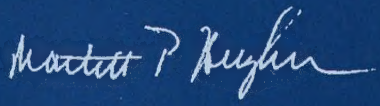
2001, though, was a story of deepening and broadening our capabilities in the United States. The acquisitions of Kaye Group Inc., Burnham Insurance Group, Inc. and J.P. Flanagan Corporation, all completed last year, have expanded our U.S. market presence dramatically. Each of these companies is an excellent fit with our family of brokerages based upon the criteria and principles cited above. They are solid, lean, high-performance and successful businesses guided by dynamic management.

I welcome Bruce Guthart, Chairman and CEO of Kaye, who has also been named President of Hub's U.S. operations and elected to our Board of Directors; Charlie Burnham, Chairman and CEO of Burnham Insurance Group and a member of our Executive Committee; and Joe Flanagan, who has joined our Chicago Mack and Parker team as President and also serves on our Executive Committee. Their companies are profiled in the pages that follow, and I am excited about the talent, ideas and growth opportunities they bring to us.

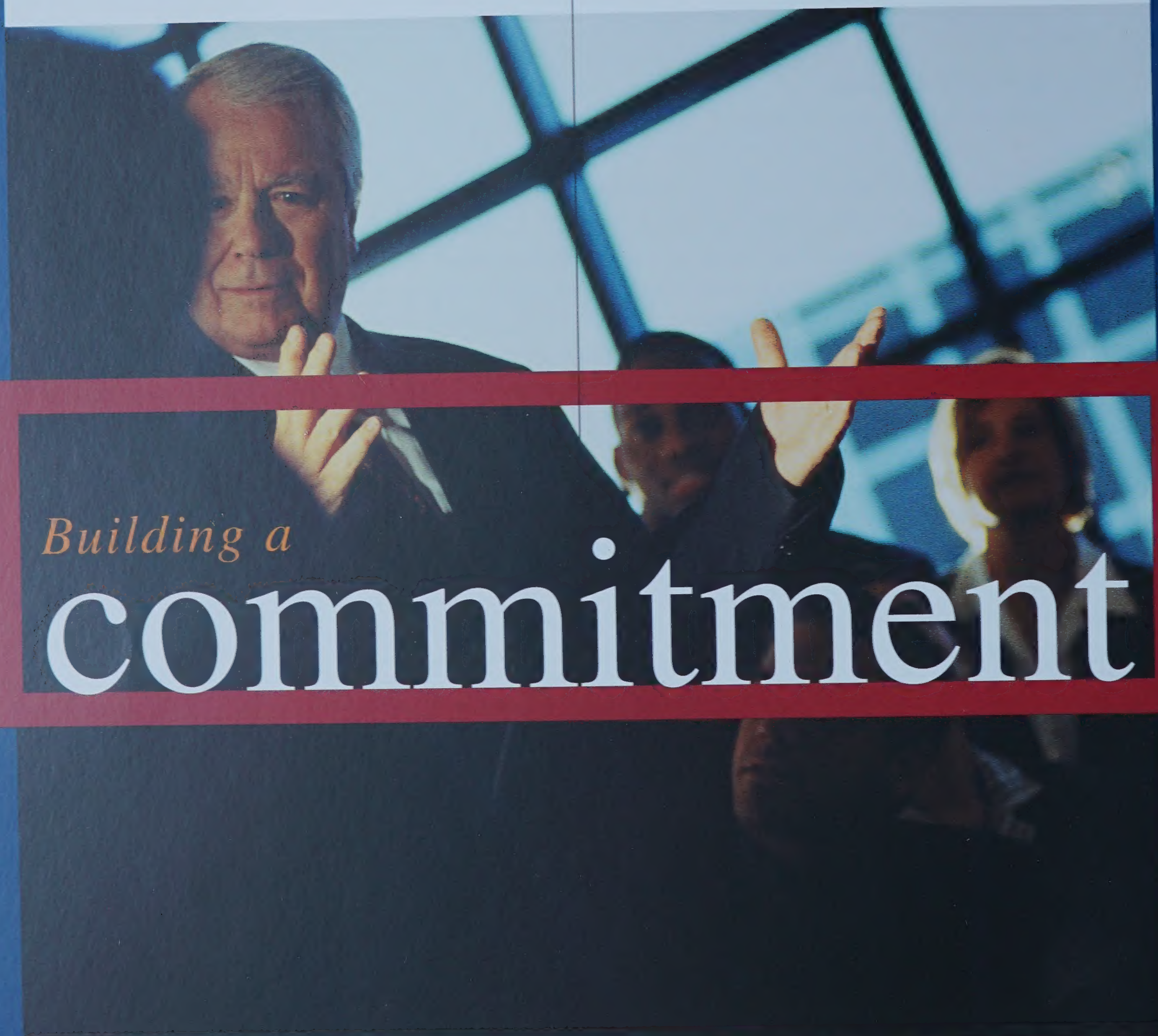
Management of our partner firms are supported by the efforts of Richard Gulliver, our President and Chief Operating Officer. My special thanks go out to Rick, as well as our shareholders, Board of Directors, clients, and employees for their contributions to our success in 2001. Our future looks bright, and I look forward to sharing more promising developments and rewarding results with you next year.



"We are extremely proud of our financial performance, which was strong in all areas."



Martin P. Hughes
Chairman and
Chief Executive Officer



Building a commitment

The affiliation with Hub allows Kaye to strengthen its regional impact and take fuller advantage of the competitive opportunities a challenging environment presents.

"I saw that as a Hub company we could draw on a wider array of resources and support while still retaining the freedom and authority to manage our business and make fast, creative decisions 'on the ground'."

—Bruce D. Guthart
Kaye Group Inc.

2002 marks the 50th anniversary of New York-based Kaye Group Inc. For most of Kaye's history, its extraordinary growth to become one of America's leading insurance brokers was entirely organic. But in the 1990s, Kaye made several strategic east coast and California acquisitions. As a result, Kaye reached a size that added meaningful scale to Hub when we merged last June. Kaye brings to Hub a highly motivated, savvy management team with broad experience and a demonstrated record of success.

Kaye's entrepreneurial, innovative culture is its growth engine. Exemplifying this is it's emergence as one of the nation's leading affinity group program managers. Kaye was an industry pioneer in capitalizing on the opportunities inherent in the U.S. Federal Risk Retention Act in the 1980s. Today, with a current network of over 1,000 retail agent and broker producers, Kaye's Program Brokerage division is a major source of niche market programs. The company has further leveraged these producer relationships into a promising non-program wholesale business. Kaye's traditional middle-market retail property-casualty and accident and health business remains vibrant, with excellent retention and new business growth, even during difficult market conditions in recent years.

The affiliation with Hub allows Kaye to strengthen its regional impact and take fuller advantage of the competitive opportunities a challenging environment presents. Discussing the merger, Bruce Guthart, President of Kaye, and now also President of Hub's U.S. operations, said, "I saw that as a Hub company we could draw on a wider array of resources and support while still retaining the freedom and authority to manage our business and make fast, creative decisions 'on the ground'."

"...our culture is compatible with Hub's."

—Charlie Burnham
Burnham Insurance Group

For Charlie Burnham, Hub's acquisition of his Battle Creek Michigan-based Burnham Insurance Group was a logical next step. "Organically and through our own series of strategic acquisitions," explains Charlie, "we grew from our 1978 founding to become a large regional agency and one of the top 100 U.S. independents." Today, Burnham's staff of 150, services all of Michigan and also the Midwest through offices in Chicago, Cleveland and Dallas. At their current size, buying the type of agencies Burnham targets requires ready access to substantial capital, and operating profitably demands an increasingly expensive technology infrastructure.

"Hub offered the financial and systems support that would facilitate our growth, and in today's tough market environment Hub's strong relationships with major carriers was also a big plus. More importantly," Charlie adds, "our culture is compatible with Hub's. They understood the direction we were going, and I knew I'd retain the independence and autonomy to run our business in the way that's worked so well for us. It all adds up—Hub provides great stimulus and incentive."

Burnham brings to Hub a mature and broad-based book of accounts and a particularly successful specialty, the Financial Institutions Group. This operation, which won a Fireman's Fund "Most Valuable Producer" award in 2001, designs a menu of risk management and fee income-producing products for financial institutions, protecting their lending activities and generating non-interest fee income.

Burnham is especially enthusiastic about their Creditor Placed Insurance program, which assists lenders in safeguarding their assets held as collateral when borrowers fail to secure coverage. "This is a perfect product for cross-pollination throughout the Hub organization," says Charlie. "We've placed this coverage for hundreds of thousands of loans based on audits we've performed. We know this need exists, and we can assist any other Hub member to tailor a similar program for any financial institution in their region."

Burnham
INSURANCE GROUP

Building partnerships

"...Hub offered the financial and systems support that would facilitate our growth..."

JP FLANAGAN
CORPORATION

Building customer relationships

"Teamwork really works with specialty insurance products," says Joe. "There are thousands of lawyers all over the country, and we can help any Hub office turn them into clients."

"Hub is exactly the right spot for me and the Flanagan team."

—Joe Flanagan
JP Flanagan Corporation

"Hub is exactly the right spot for me and the Flanagan team," explains Joe Flanagan. "I consider myself a salesman-entrepreneur, and the open, flexible structure at Hub allows me to work at the same pace and with the freedom that have been key to my company's historical success." In 1992, at age 27, Joe left a major national brokerage house to start his own firm from scratch—no clients, no income and no markets. By 2001, after almost a decade as one of Chicago's fastest growing brokerages, JP Flanagan Corporation's revenues reached $8.5 million.

Why sell to Hub? "The Flanagan team had done acquisitions," answers Joe, "but it was clear to me that in today's insurance climate in order to add the scale I knew we were capable of, a source of capital was required. That reality, combined with Hub's flat organizational structure, sold me."

Joe Flanagan offers not just the personal and professional profile that fits Hub so well, but also a track record of building a specialty business. Flanagan's Professional Liability Division, selling primarily to attorneys, is a national practice. One product offering is a coverage specifically designed for sole practitioners and firms of up to ten lawyers. "Our insurance professionals have developed a deep knowledge of attorneys' risk management needs," explains Joe. "Regardless of the firm's size, we have often found we are more fluent with the exposures our clients face than they are themselves."

Our brokerages have already successfully capitalized on Flanagan's expertise in this area. Most recently, a Kaye producer in New York and a C. J. McCarthy representative in Boston teamed up with Flanagan specialists to win a sixty-six attorney firm based in Boston. "Teamwork really works with specialty insurance products," says Joe. "There are thousands of lawyers all over the country, and we can help any Hub office turn them into clients."

Financial Section

Information Concerning Forward-Looking Statements

This Annual Report may include forward-looking statements which reflect our current views with respect to future events and financial performance. These forward-looking statements relate, among other things, to our plans and objectives for future operations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors include, but are not limited to risks associated with implementing our business strategies, failure to identify or consummate acquisitions, failure to successfully integrate acquired businesses, decrease in the level of demand for insurance products, decrease in the premiums charged by insurance companies (with a corresponding decrease in our premium-based revenue), loss of services of key executive officers, actions of our competitors, including industry consolidation and increased competition in the industry, inability to develop and implement effective information technology systems, the passage of federal or state legislation subjecting our business to supervision or regulation in Canada and the United States or other jurisdictions in which we operate, and failure to successfully recruit and retain qualified employees. The words "believe," "anticipate," "project," "expect," "intend," "will likely result" or "will continue" and similar expressions identify forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We were formed in November 1998 through the merger of 11 independent insurance brokerages into a new company. The merger was accounted for using the pooling-of-interests method. Accordingly, our results for the year ended December 31, 1998 include the assets, liabilities, shareholders' equity, revenue and expenses of the combined companies, without adjustments. Our results for the year ended December 31, 1999 reflect the results of TOS Insurance Services Ltd. and Mack and Parker, Inc. from September 1, 1999 and October 28, 1999, respectively, the dates on which we acquired each brokerage. Our results for the year ended December 31, 2000 reflect the results of C.J. McCarthy Insurance Agency, Inc. from July 1, 2000, the date on which we acquired it. Our results for the year ended December 31, 2001 reflect the results of Flanagan, Kaye and Burnham from June 1, 2001, June 29, 2001 and July 2, 2001, respectively, the dates on which we acquired each brokerage. In addition to the acquisition of these larger brokerages, our results also reflect the acquisition of smaller brokerages that occurred in each respective period. As a result of our acquisitions, the results in each period are not directly comparable.

Year ended December 31, (in thousands of U.S. dollars, except per share amounts) (1)	**2001**	2000	1999	1998	1997
Consolidated statement of earnings data:					
Revenue	**$153,993**	$ 95,240	$ 54,097	$38,723	$29,800
Expenses	**127,231**	78,364	44,029	33,379	25,126
Net earnings before the following	**26,762**	16,876	10,068	5,344	4,674
Interest expense	**7,447**	1,981	632	805	567
Goodwill and other intangible asset amortization	**4,940**	3,260	1,626	1,087	807
(Gain) loss on disposal of capital assets and investments	**(173)**	127	14	(84)	—
Other income—put option liability	**(719)**	—	—	—	—
Net earnings before income taxes	**15,267**	11,508	7,796	3,536	3,300
Provision for income tax expense	**5,262**	5,370	4,052	1,848	1,319
Net earnings	**$ 10,005**	$ 6,138	$ 3,744	$ 1,688	$ 1,981
Earnings per share:					
Basic	**$ 0.53**	$ 0.34	$ 0.22	$ 0.26	
Diluted	**$ 0.50**	$ 0.34	$ 0.22	$ 0.26	
Weighted average shares outstanding:					
Basic	**19,012**	18,327	16,941	6,448	
Diluted	**20,105**	18,327	16,941	6,448	
Consolidated balance sheet data (at period end):					
Cash and cash equivalents (2)	**$ 26,979**	$ 19,919	$ 21,368	$ 308	$ 563
Total assets	**$502,296**	$206,157	$171,202	$49,128	$39,741
Total debt and capital leases (3)	**$196,952**	$ 34,665	$ 20,562	$14,388	$15,724
Total shareholders' equity	**$135,271**	$112,212	$105,462	$13,463	$ 6,297

(1) Effective September 30, 2001, we adopted the U.S. dollar as our reporting currency. Our financial results for all periods prior to October 1, 2001 have been restated from Canadian dollars to U.S. dollars at the exchange rate in effect at September 30, 2001 of C$1.00 = $0.6338.

(2) Excludes trust cash, which includes premiums collected (less commissions and other deductions) but not yet remitted to insurance carriers.

(3) Includes long-term debt and capital leases (including current portion), bank debt and subordinated convertible debentures.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes. Certain information contained in "Management's discussion and analysis of financial condition and results of operations" are forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements because of various factors, including those discussed below and elsewhere in this annual report, particularly under the heading "Risk Factors." Unless otherwise indicated, all dollar amounts are expressed in, and the term "dollars" and the symbol "$" refer to, U.S. dollars. The term "Canadian dollars" and the symbol "C$" refer to Canadian dollars.

OVERVIEW

We are a leading North American insurance brokerage providing a wide variety of property and casualty, life and health, employee benefits, investment and risk management products and services from 130 locations across North America. We were formed in November 1998 through the merger of 11 Canadian independent, privately-held insurance brokers.

In 1999, we acquired 44 brokerages, including Mack and Parker, Inc., our first acquisition in the United States. In 2000, we acquired 18 brokerages in the United States and Canada, including C.J. McCarthy Insurance Agency, Inc. (McCarthy). In 2001, we acquired 16 brokerages, including Kaye Group Inc. (Kaye) on June 28, Burnham Stewart Group Inc. (Burnham) on July 1, and J.P. Flanagan Corporation (Flanagan) on May 31. We apply the purchase method of accounting to our acquisitions and, as a result, the acquired brokerages' financial results are included only from the date of purchase. Revenue generated by Kaye, which was previously listed on Nasdaq®, represented 17% of our revenue for the year ended December 31, 2001 on an actual basis, and 30% on a pro forma basis.

As part of our acquisition of Kaye, we acquired Old Lyme Insurance Company of Rhode Island, Inc. and Old Lyme Insurance Company Ltd., primary insurance companies, which together we call Old Lyme. We acquired Kaye with the intent to sell Old Lyme and have since entered into an agreement to sell Old Lyme to a subsidiary of Fairfax Financial Holdings Limited (Fairfax), at a purchase price equivalent to its U.S. GAAP book value as of December 31, 2001, of approximately $42.8 million. As of December 31, 2001, Fairfax owned 37% of our common shares. As of June 28, 2001, we recorded Old Lyme as an investment held for sale. Accordingly, Old Lyme is shown separately on our balance sheet at cost, which is at or below market value, and its results of operations are not included in our consolidated earnings.

We generate our revenue in the United States (U.S.) and Canada. As the table below shows, historically we derived a large percentage of our revenue from our Canadian Operations. However, after our acquisitions of Kaye, Burnham and Flanagan, and our other acquisitions in 2001, among others, revenue from our U.S. Operations increased to almost half of our total revenue for 2001. We expect that in the future, a greater percentage of our revenue will be derived from our U.S. Operations and generated in U.S. dollars.

Year ended December 31,

(in thousands, except percentages)	**2001**	**% of total**	2000	% of total	1999	% of total
Revenue						
U.S. Operations	**$ 75,429**	**49.0%**	$20,004	21.0%	$ 1,535	2.8%
Canadian Operations	**78,564**	**51.0%**	75,236	79.0%	52,562	97.2%
Total	**$153,993**	**100.0%**	$95,240	100.0%	$54,097	100.0%

We have demonstrated growth in revenue and EBITDA (which we define as earnings before interest, income taxes, depreciation and goodwill and other intangible asset amortization, but excluding gains or losses from the sale of capital assets and investments and other income—put option liability) over the past three years. From December 31, 1998 to December 31, 2001, our revenue increased from $38.7 million to $154.0 million representing a compounded annual growth rate of approximately 58%. This growth in revenue is primarily attributable to the additional 78 brokerages we have acquired since our formation in 1998 and has been supplemented by our consistent organic growth, which has ranged from 5% to 6% per year. We define organic growth as an increase in revenue for one period as compared to a prior period, including net new business and net increases in commissions from existing business. Revenue from a brokerage we acquire is excluded from the calculation of organic growth for the first 12 months subsequent to the acquisition of the brokerage.

From December 31, 1998 to December 31, 2001, EBITDA improved from $6.2 million to $30.7 million, representing a compounded annual growth rate of approximately 70%. EBITDA is not a measure of financial performance under either U.S. or Canadian GAAP, and should not be considered in isolation or as a substitute for net income, cash flows from operating activities or other income or cash flow statement data prepared in accordance with generally accepted accounting principles as a measure of profitability or liquidity. We believe the presentation of EBITDA is relevant because EBITDA is a measurement that industry analysts use when evaluating our operating performance. Investors

should be aware that our presentation of EBITDA may not be comparable with similarly titled measures presented by other companies.

Though the insurance brokerage industry is highly sensitive to changes in the property and casualty insurance industry, it is relatively less sensitive to economic cycles than other industries. Insurance coverage, products and services are essential to businesses, governmental agencies and consumers, and are typically a fixed cost that is difficult to eliminate even in periods of economic weakness. The commissions that we receive from primary insurers, however, fluctuate with premium levels within the insurance market.

During the 1990's and into 2000, the property and casualty insurance industry experienced excess capacity which resulted in highly competitive market conditions, declining premium levels and a corresponding reduction in commissions paid to brokers. However, market participants, particularly in the United States, have recently reported significant increases in property and casualty premium levels. This change is the result of several years of reduced profitability for property and casualty insurance companies and a subsequent contraction of capacity. In the United States, premium levels for property and casualty insurance policy renewals generally increased throughout 2001, while in Canada prices did not begin to increase until the fourth quarter of 2001. We believe that the events of September 11, 2001 have caused property and casualty insurance companies to increase premium levels even further. We also believe that the publicity surrounding these events has led to widespread acceptance of rate increases by middle-market companies. While we cannot predict the timing or extent of premium pricing changes or their effect on our operations in the future, we believe that premium rates will continue to increase at least through 2003.

REVENUE

We derive our revenue primarily from commissions on the sale of insurance products and services to our clients. Commissions, which represented approximately 93% of our revenue for 2001, are calculated as a percentage of and paid from premiums. The insurance companies determine insurance premium rates based upon their underwriting analyses, while the percentage of commission is negotiated between us and the insurers. Typically commission rates fall within a range of industry norms based on lines of business. For example, basic commissions for property and casualty insurance typically average approximately 15% of premiums.

For the year ended December 31, 2001, approximately 65% of our revenue was derived from commercial accounts and approximately 28% from personal accounts, in both cases, excluding related contingent commissions and volume overrides.

In addition to revenue from commissions on premiums, we derive a portion of our revenue from volume overrides, contingent commissions and fees. Volume overrides are additional compensation paid by insurance companies based upon the overall volume of business that an insurance broker places with an insurance company. Contingent commissions are based on the profit an insurance company makes on the overall volume of business we place with it. Contingent commissions are typically received in the first or second quarter. In 2001, 3.8% of our total revenue was derived from contingent commissions and volume overrides.

We are not dependent on any single client or on a few clients for our revenue, nor are we dependent on a single industry or client type for a substantial amount of our business. We place insurance policies with more than 150 different insurance companies in the United States and Canada and do not depend on any single insurance company or group of related companies for the products we market to our clients or for any substantial amount of our revenue. As of December 31, 2001, we placed insurance policies with six insurance companies owned by Fairfax, each of which offers competitively-priced products. All of our transactions with the Fairfax companies are in the normal course of business, at fair market value and, in the aggregate, generated approximately 4.9% of our total revenue in 2001. This percentage will increase in 2002 as a result of the sale of Old Lyme.

EXPENSES

The majority of expenses we incur are remuneration expenses related to compensation and employee benefits, which typically account for approximately 70% of our total operating expenses. In addition to salaries, we also pay bonuses pursuant to our performance bonus program whereby each brokerage has an opportunity to achieve an annual bonus ranging from 50% to 65% of its brokerage pre-bonus operating profit in excess of 20% of the brokerage's prior year revenue. The bonus percentage earned is based upon the respective brokerage's operating profit margin. In 2001, salary, bonuses and benefits equaled approximately 57% of our total revenue. Other expenses include selling (which includes marketing and advertising, but not commissions paid to our sales producers), occupancy (which includes rent and related operating costs), administration (which includes office supplies, postage, telephone, training, technology and bad debts) and depreciation.

RESULTS OF OPERATIONS

Year ended December 31, 2001 compared to year ended December 31, 2000

Revenue. Total revenue for the year ended December 31, 2001 increased by $58.8 million or 62% to $154.0 million from $95.2 million for the year ended December 31, 2000. Of this increase, $55.6 million, or 95%, was attributable to acquisitions and reflects the inclusion of the results of each brokerage we acquired during the year from the respective date of each acquisition. For the year ended December 31, 2001, commission income increased by $56.5 million or 65% to $142.9 million from $86.4 million for the year ended December 31, 2000. Excluding the effects of acquisitions,

commission income increased $4.3 million or 5%. This increase was mainly due to organic growth, including premium rate increases. For the year ended December 31, 2001, revenue from contingent commissions and volume overrides increased by $1.0 million or 20% to $5.9 million from $4.9 million for the year ended December 31, 2000. This increase was primarily attributable to acquisitions. For the year ended December 31, 2001 other income, which includes fees and interest income, increased by $1.3 million or 33% to $5.2 million from $3.9 million for the year ended December 31, 2000. This increase was primarily attributable to acquisitions.

For the year ended December 31, 2001, total revenue from U.S. Operations increased by $55.4 million or 277% to $75.4 million from $20.0 million for the year ended December 31, 2000. This increase was primarily due to acquisitions. Excluding the effect of acquisitions, total revenue increased $2.1 million or 11% primarily due to organic growth.

For the year ended December 31, 2001, total revenue from Canadian Operations increased by $3.4 million or 5% to $78.6 million from $75.2 million for the year ended December 31, 2000. Excluding the effect of acquisitions, total revenue increased $1.1 million or 1.0%.

Remuneration. Remuneration costs for the year ended December 31, 2001 increased by $33.3 million or 61% to $88.0 million from $54.7 million for the year ended December 31, 2000. Remuneration costs as a percentage of total revenue remained unchanged at 57% for 2001 as compared to 2000.

Selling. Selling expenses for the year ended December 31, 2001 increased by $3.6 million or 75% to $8.4 million from $4.8 million for the year ended December 31, 2000. Selling expenses as a percentage of total revenue of 5% remained unchanged for 2001 as compared to 2000.

Occupancy. Occupancy expenses for the year ended December 31, 2001 increased by $3.3 million or 57% to $9.1 million from $5.8 million for the year ended December 31, 2000. Occupancy expenses as a percentage of total revenue of 6% remained unchanged for 2001 as compared to 2000.

Depreciation. Depreciation expenses for the year ended December 31, 2001 increased by $2.0 million or 105% to $3.9 million from $1.9 million for the year ended December 31, 2000. Depreciation expenses as a percentage of total revenue increased to 3% in 2001 from 2% in 2000. This increase was primarily due to capital assets that we acquired with our brokerage acquisitions.

Administration. Administration expenses for the year ended December 31, 2001 increased by $6.7 million or 60% to $17.9 million from $11.2 million for the year ended December 31, 2000. Administration expenses as a percentage of total revenue of 12%, remained unchanged for 2001 as compared to 2000.

Interest expense. Interest expense for the year ended December 31, 2001 increased by $5.4 million or 270% to $7.4 million from $2.0 million for the year ended December 31, 2000. This increase is largely attributable to our issuance of 8.5% convertible subordinated notes to Fairfax and a third-party and new short-term bank loans incurred to fund the acquisitions of Kaye and other brokerages we acquired in 2001.

Goodwill and other intangible asset amortization. Goodwill and other intangible asset amortization for the year ended December 31, 2001 increased by $1.6 million or 48% to $4.9 million from $3.3 million for the year ended December 31, 2000. This increase is attributable to acquisitions in 2001 and 2000. For more information, see "Goodwill and other intangible assets" below.

Provision for income tax expense. Income taxes for the year ended December 31, 2001 and 2000 amounted to $5.3 million and $5.4 million, respectively, resulting in an effective tax rate of 34% and 47% for 2001 and 2000, respectively. The decrease in our effective income tax rate was the result of more efficient tax planning, including the manner in which we have structured certain of our acquisitions in the United States.

Net earnings. Net earnings for the year ended December 31, 2001 increased by $3.9 million or 63% to $10.0 million compared to $6.1 million in 2000. Basic earnings per share increased to $0.53 per share for 2001 from $0.34 per share for 2000. Diluted earnings per share increased to $0.50 per share for 2001 from $0.34 per share for 2000.

Year ended December 31, 2000 compared to year ended December 31, 1999

Revenue. Total revenue for the year ended December 31, 2000 increased by $41.1 million or 76% to $95.2 million from $54.1 million for the year ended December 31, 1999. Of this increase, $39.5 million, or 96%, was attributable to acquisitions. For the year ended December 31, 2000, commission income increased by $38.4 million or 80% to $86.4 million from $48.0 million for the year ended December 31, 1999. Excluding the effects of acquisitions, commission income increased $2.8 million or 6%. This increase was mainly due to organic growth. For the year ended December 31, 2000, revenue from contingent commissions and volume overrides increased by $2.1 million or 75% to $4.9 million from $2.8 million for the year ended December 31, 1999. This increase was primarily attributable to acquisitions. For the year ended December 31, 2000, other income, which includes fees and interest income, increased by $0.6 million or 18% to $3.9 million from $3.3 million for the year ended December 31, 1999. This increase was primarily attributable to acquisitions.

For the year ended December 31, 2000, total revenue from U.S. Operations increased by $18.5 million or 1,233% to $20.0 million from $1.5 million for the year ended December 31, 1999. This increase was primarily due to acquisitions. Total revenue from our U.S. Operations increased to 21% of our consolidated total revenue in 2000 from 3% in 1999.

For the year ended December 31, 2000, total revenue from Canadian Operations increased $22.6 million or 43% to $75.2 million from $52.6 million for the year ended December 31, 1999 primarily due to acquisitions. Total revenue from our Canadian Operations decreased to 79% of consolidated total revenue in 2000 from 97% in 1999.

Remuneration. Remuneration costs for the year ended December 31, 2000 increased by $25.2 million or 85% to $54.7 million from $29.5 million for the year ended December 31, 1999. Remuneration costs as a percentage of total revenue increased to 57% in 2000 from 55% in 1999. This increase was primarily a result of increases in brokerage performance bonuses. Brokerage performance bonuses were 4% of total revenue in 2000 compared to 1% in 1999. Due to the timing of our acquisitions, many of the brokerages did not qualify for an operating bonus in 1999. In 2000, however, all but three brokerages achieved a pre-bonus operating profit in excess of 20%.

Selling. Selling expenses for the year ended December 31, 2000 increased by $1.8 million or 60% to $4.8 million from $3.0 million for the year ended December 31, 1999. Selling expenses as a percentage of total revenue decreased to 5% in 2000 from 6% in 1999. This decrease was mainly due to increased cost reductions.

Occupancy. Occupancy expenses for the year ended December 31, 2000 increased by $2.4 million or 71% to $5.8 million from $3.4 million for the year ended December 31, 1999. Occupancy expenses as a percentage of total revenue of 6% remained unchanged for 2000 as compared with 1999.

Depreciation. Depreciation expenses for the year ended December 31, 2000 increased by $0.6 million or 46% to $1.9 million from $1.3 million for the year ended December 31, 1999. Depreciation expenses as a percentage of total revenue of 2% remained unchanged for 2000 as compared to 1999.

Administration. Administration expenses for the year ended December 31, 2000 increased by $4.4 million or 65% to $11.2 million from $6.8 million for the year ended December 31, 1999. Administration expenses as a percentage of total revenue decreased to 12% in 2000 from 13% in 1999. This decrease was primarily due to our continuous effort to reduce overhead costs.

Interest expense. Interest expense for the year ended December 31, 2000 increased by $1.4 million or 233% to $2.0 million from $0.6 million for the year ended December 31, 1999. This increase is attributable to the increase in long-term debt incurred to fund our acquisitions.

Goodwill and other intangible asset amortization. Goodwill and other intangible asset amortization for the year ended December 31, 2000 increased by $1.7 million or 106% to $3.3 million from $1.6 million for the year ended December 31, 1999. This increase is attributable to the 62 acquisitions we completed during 2000 and 1999.

Provision for income tax expense. Income taxes for the year ended December 31, 2000 and 1999 amounted to $5.4 million and $4.1 million, respectively, resulting in an effective tax rate of 47% and 52% for 2000 and 1999, respectively. The decrease in our effective income tax rate is the result of more efficient tax planning, including the manner in which we have structured certain of our acquisitions in the United States.

Net earnings. Net earnings for the year ended December 31, 2000 increased by $2.4 million or 65% to $6.1 million compared to $3.7 million for 1999. Basic and diluted earnings per share increased to $0.34 per share for 2000 from $0.22 per share for 1999.

CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

We act as an intermediary between insurance companies and their insured customers. As such, we collect and hold premiums paid by customers on behalf of the insurers. We deduct commissions and other expenses from these payments and hold the remainder in trust for the insurers. We earn interest on those funds during the time between receipt of the cash and the time the cash is paid out to the insurers. However, we may not use the funds for any purpose and we must remit the funds within a specified period after the effective date of the respective policy. The cash we hold in trust is shown separately on our balance sheet.

As of December 31, 2001, we had cash and cash equivalents of $77.4 million, of which $50.4 million was trust cash, an increase of $45.1 million from $32.3 million as of December 31, 2000. During 2001, $46.9 million of cash was provided by operating activities, primarily as a result of timing differences between the payment of accounts payable and the collection of accounts receivable. The remainder was the result of increased net earnings adjusted for items affecting working capital. Long-term debt financing and bank debt financing generated $137.8 million of cash. Share capital issued generated cash of $3.3 million, net of repurchases. From these amounts and existing cash balances, $148.8 million (including gross of $25.4 million cash received) was used to acquire businesses and $5.2 million was used to repay long-term debt and capital leases, $3.6 million was used to pay dividends, and $10.9 million was used for additions to capital assets and other assets.

As of December 31, 2000, we had cash and cash equivalents of $32.3 million, of which $12.4 million was trust cash, an increase of $0.5 million from $31.8 million as of December 31, 1999. During 2000, $12.8 million of cash was provided from operating activities primarily as a result of timing differences between the payment of accounts payable and the collection of accounts receivable. The remainder was the result of increased net earnings adjusted for items affecting working capital. Long-term debt financing generated $29.8 million of cash. In addition, the executive share purchase plan and the sale of other assets generated $2.8 million of

cash. From these amounts and existing cash balances, $18.9 million was used to acquire brokerages, $2.8 million was used to repurchase our common shares, $18.9 million was used to repay long-term debt, capital leases, and bank debt, $2.5 million was used to pay dividends, and $2.1 million was used for additions to capital assets.

As of December 31, 2001, we had client premiums receivable outstanding of $80.5 million, of which 1.7% are over 90 days old. We monitor these receivables on a regular and timely basis and have controls in place to manage aging accounts. In addition, we can mitigate the risk of loss related to client premiums receivable by requesting that the insurance company cancel the contract for insurance where payment is overdue, thereby reducing the related premiums payable to insurance companies and the related amounts to be collected from the client. Therefore, we do not believe that the aging of our accounts receivables presents a material liquidity risk. As of December 31, 2001, we had related premiums payable to insurance companies of $122.7 million.

We require that our brokerages submit to head office, on a monthly basis, all excess cash on hand in excess of a working capital ratio of 1:1. All brokerages with trust reporting requirements are required to submit to head office, on a quarterly basis, trust reconciliation calculations stating whether or not they are in compliance with applicable insurance broker regulations.

We maintain four separate credit facilities:

- $50 million facility. Borrowings under this facility are accessed at a floating rate of 112.5 basis points above LIBOR, which was 2.09% as of December 31, 2001. This facility expires on June 20, 2002 and requires us to maintain certain financial ratios. We intend to extend this facility for a further period of one year, but if the revolving period is not extended, any amounts outstanding will automatically convert into a three-year term loan at a fixed interest rate equal to the Canadian dollar interest swap rate quoted by the lender plus 1.375%. As of December 31, 2001, $49.5 million had been drawn on this facility. We intend to pay down approximately $5 million of this facility with the proceeds from the sale of Old Lyme.
- $25 million facility. Borrowings under this facility are accessed at a floating rate of 135 basis points above LIBOR. This facility is guaranteed by certain of our subsidiaries and by Fairfax. It expires on July 18, 2002 and contains covenants that, among other things, require us to maintain certain financial ratios, restrict our ability to incur additional debt and limit our quarterly dividend payments to C$0.07 per share. As of December 31, 2001, $25 million was drawn on this facility. We intend to fully repay and terminate this facility with proceeds from the sale of Old Lyme.
- $25 million facility. Borrowings under this facility are accessed either at a floating rate of 150 basis points above LIBOR or at a fixed interest rate of 9%. This facility is guaranteed by certain of our subsidiaries. The floating rate portion of this facility expires on July 17, 2002 and contains covenants that, among other things, require us to maintain certain financial ratios, restrict our ability to incur additional debt and limit our quarterly dividend payments to C$0.07 per share. As of December 31, 2001, $24.5 million was drawn on this facility, of which $23 million was drawn at a floating interest rate, and $1.5 million was drawn at a fixed interest rate, which is included in long-term debt and is due October 3, 2005. We intend to pay down approximately $4.5 million of this facility with the proceeds from the sale of Old Lyme.
- $7.5 million facility. Borrowings under this facility are at an interest rate of prime, which was 4.75% as of December 31, 2001, plus 1%. Payment is due on demand. As of December 31, 2001, $7.0 million had been drawn on this facility. We intend to fully repay and terminate this facility with the proceeds from the sale of Old Lyme.

As of September 30, 2001, we were not in compliance with certain financial covenants relating to the maintenance of our financial ratios under both of our $25 million credit facilities. Our non-compliance was the direct result of a delay in reaching a final agreement for the sale of Old Lyme, the proceeds of which would have been used to repay debt. Our lenders have granted us waivers with respect to our non-compliance with these covenants. In addition, we have negotiated amended agreements with these lenders as of December 31, 2001. Under the amended agreements, we are in compliance with all the financial covenants governing the respective credit facilities as of December 31, 2001.

As of December 31, 2001, we had $13.6 million of subsidiary debt comprised of various notes payable, term loans and capital leases. We intend to repay these liabilities from internally generated cash flow, existing cash balances and/or borrowings under our credit facilities as the subsidiary debt becomes due during 2002 through 2010. Of the outstanding subsidiary debt, $8.6 million is secured by liens on certain assets of our subsidiaries.

In connection with our acquisition of Kaye on June 28, 2001, we issued: (1) $26.6 million aggregate principal amount of 8.5% convertible subordinated notes due June 28, 2006 to a third-party, the third-party notes; and (2) $35 million aggregate principal amount of 8.5% convertible subordinated notes due June 28, 2007 to certain subsidiaries of Fairfax, the Fairfax notes. These convertible notes were anti-dilutive to earnings per share as of December 31, 2001.

The third-party notes are convertible at any time into our common shares at C$17.00 per share, subject to mandatory conversion on June 30, 2006. The third-party has agreed not

to convert the notes into common shares before June 30, 2002 and also has agreed to allow us to repay the notes, in whole or in part, on or before June 30, 2002, without penalty.

The Fairfax notes are convertible by the holders at any time into our common shares at C$17.00 per share. Beginning June 28, 2006, we may require Fairfax to convert the Fairfax notes into our common shares at C$17.00 per share if, at any time, the weighted average closing price of our common shares for twenty consecutive trading days equals or exceeds C$19.00 per share. If Fairfax converted all of the Fairfax notes, Fairfax would own approximately 45.1% of our total outstanding common shares as of December 31, 2001.

Net debt, defined as long-term debt, including the current portion, bank debt and subordinated convertible notes less non-trust cash and the investment held for sale, as of December 31, 2001, was $129.2 million, compared to $14.7 million as of December 31, 2000. The increase in debt is largely associated with debt incurred to finance acquisitions we made in 2001. In connection with our acquisition of Kaye for $130.4 million, we issued $61.6 million in subordinated convertible notes to Fairfax and a third party, as described above, as well, $54.0 million was financed with bank debt and $14.8 million was paid with cash. Similarly, the cash portion of our purchase of Burnham was financed with a short-term bank loan of $11.9 million.

As a result of financing these acquisitions with debt, our net debt-to-equity ratio has increased. As of December 31, 2001, our net debt-to-equity ratio was 0.96:1, up from 0.13:1 as of December 31, 2000. We may incur additional debt to pay for future acquisitions. However, we intend to continue our practice of using our common shares to pay for acquisitions. To the extent we issue additional common shares to pay for future acquisitions, your equity interest in us will be diluted.

The table below summarizes our contractual obligations and commercial commitments as of December 31, 2001:

Payments due by period (in thousands)	Total	On demand	Less than 1 year	1–3 years	4–5 years	After 5 years
Bank borrowings	$ 55,000	$7,000	$48,000	$ —	$ —	$ —
Long-term debt and capital lease obligations	80,328	—	4,169	5,272	62,381	8,506
Operating lease obligations	53,766	—	9,061	14,877	11,991	17,837
Total	$189,094	$7,000	$61,230	$20,149	$74,372	$26,343

We intend to repay approximately $41.5 million of bank borrowings with the proceeds from the sale of Old Lyme. It is our intention to pay for operating lease obligations with cash flows generated from our operating activities.

We believe that our existing cash, funds generated from operations and borrowings available under our credit facilities, together with the proceeds from the sale of Old Lyme, will be sufficient to satisfy our financial requirements, including strategic acquisitions, during the next twelve months. We may also raise debt or equity capital in the public or private markets in the future. If we issue additional common shares, your equity interest in us will be diluted.

CONTINGENT OBLIGATIONS

As part of our executive share purchase plan, we guaranteed loans made by a Canadian chartered bank to executives and employees to acquire our common shares. We may be required under certain circumstances to repay up to $5.5 million in loans incurred under the plan. The loans are secured by 669 of our common shares, which had a market value of $6.4 million as of December 31, 2001.

Additionally, in conjunction with our acquisitions of Flanagan and Burnham in 2001, we issued our common shares to the former owners of each brokerage in consideration of the purchase price paid and granted to them the option to require us to repurchase our shares, approximately 2.1 million common shares in total, upon certain triggering events. The estimated financial liability associated with these put options totaled $17.3 million as of December 31, 2001, and is included in long-term debt.

We paid for the acquisitions of Burnham and Flanagan with a combination of cash and our common shares. The former shareholders of Burnham and Flanagan are also entitled to receive contingent consideration if their respective brokerages meet specified performance targets, based on revenue and operating profit.

Flanagan

The following table summarizes the contingent consideration that will be issued to the former shareholders of Flanagan if Flanagan meets certain performance criteria:

Year	Contingent consideration	Contingent consideration target criteria
2001	50 shares	Revenue and Profitability
2002	38 shares	Revenue
2002	38 shares	Profitability
2003	88 shares	Revenue
2003	37 shares	Profitability

Flanagan met its contingent consideration criteria for 2001. Accordingly, as of December 31, 2001, we have an obligation to issue 50 shares in the amount of approximately $0.5 million. The additional purchase consideration has been recorded in goodwill and share capital as of December 31, 2001.

Burnham

The former shareholders of Burnham are entitled to contingent consideration in the event that the acquired Burnham operations meet certain profitability targets for the twelve-month period ended June 30, 2002. The contingent consideration to be issued, if the profitability criteria are met, will be a portion of actual profitability in excess of the target. Any contingent consideration issued by us will be paid 38% in cash, 51% in our restricted shares and 11% in our unrestricted shares.

Others

An additional $400 of contingent consideration, based primarily on revenue targets, may also be issued in connection with acquisitions we made in 2001.

SHAREHOLDERS' EQUITY

Share repurchases. In 2001, no common shares were purchased and cancelled. As of December 31, 2001, 8 common shares were reserved in respect of our executive stock purchase plan.

In 2000, we purchased and cancelled 226 of our common shares for an aggregate cost of $2.0 million of which $0.6 million was charged to retained earnings. In addition, we reserved 62 common shares in respect of our executive stock purchase plan. Of the aggregate cost of $0.8 million, retained earnings was charged with $0.4 million.

Shareholders' equity increased by $23.1 million or 21% to $135.3 million as of December 31, 2001 from $112.2 million as of December 31, 2000. This increase resulted from net earnings of $10.0 million, an increase in the cumulative translation account of $2.6 million and an increase in share capital of $14.1 million, primarily related to issuance of our common shares in connection with acquisitions. The increase in shareholders' equity was offset by the payment of dividends of $3.6 million.

Shareholders' equity increased by $6.7 million, or 6%, to $112.2 million as of December 31, 2000 from $105.5 million as of December 31, 1999. This increase resulted from net earnings of $6.1 million, an increase in the cumulative translation account of $1.0 million and an increase in share capital of $3.1 million, which was offset by the payment of dividends of $2.5 million and excess over stated value of shares purchased of $1.0 million.

Market risk

Interest rate risk. We are exposed to interest rate risk in connection with our credit facilities. We have approximately $104.5 million of floating rate bank debt. However, we intend to pay down approximately $41.5 million of such debt with proceeds from the sale of Old Lyme. Accordingly, we will be subject to interest rate risk on $63.0 million. Each 100 basis point increase in the interest rates charged on the balance of our outstanding floating rate debt will result in approximately $0.4 million decrease in our net earnings. We currently do not engage in any derivatives or hedging transactions. However, we are investigating and may enter into an interest rate swap for our outstanding foreign currency debentures.

Exchange rate sensitivity

We report our revenue in U.S. dollars. Our Canadian Operations earn revenue and incur expenses in Canadian dollars. Given our significant Canadian dollar revenue, we are sensitive to the fluctuations in the value of the Canadian dollar and are therefore exposed to foreign currency exchange risk. Foreign currency exchange risk is the potential for loss in revenue and net earnings as a result of a decline in the U.S. dollar value of our Canadian dollar revenue due to a decline in the value of the Canadian dollar compared to the U.S. dollar.

The Canadian dollar is subject to volatility and has experienced significant decline in its value compared to the U.S. dollar in recent years. The value of the Canadian dollar as of December 31, 1999 was $0.6925 compared to $0.6279 as of December 31, 2001, a decline of more than 9%.

The table below summarizes the effect that a $0.01 decline or increase in the value of the Canadian dollar would have had on our revenue and net earnings in prior years.

Year ended December 31,

(in thousands, except percentages)	**2001**	2000	1999
Canadian Operations revenue	**$78,564**	$75,236	$52,562
Percentage of total	**51.0%**	79.0%	97.2%
Canadian Operations net income	**$ 9,163**	$ 6,446	$ 3,969
Percentage of total	**91.6%**	100.0%	100.0%
$0.01 change in value of C$ results in change in:			
Revenue	**+/–$785**	+/–$752	+/–$525
Net earnings	**+/–$ 92**	+/–$ 64	+/–$ 40

The increasing proportion of our revenue derived from our U.S. Operations and earned in U.S. dollars has, in part, offset the potential risk of a decline in the Canadian dollar. We expect that the proportion of revenue earned in U.S. dollars will continue to increase, further mitigating our foreign currency exchange sensitivity. We have not entered into, and do not intend to enter into, foreign currency forward exchange agreements.

Goodwill and other intangible assets

Intangible assets arising from acquisitions consist of the following:

As of December 31,

(in thousands)	2001	2000
Customer relationships	$ 21,720	$ —
Non-competition covenants	2,587	—
Trademarks	1,839	—
Goodwill	235,670	128,226
Accumulated amortization	(15,637)	(10,482)
Total	$246,179	$117,744

The amounts allocated to customer relationships, non-competition covenants and trademarks are determined by discounting the net cash flow of future commissions adjusted for expected persistency, mortality and associated costs. The balance of the excess purchase price is allocated to goodwill.

Customer relationships are amortized on a straight-line basis over their periods of duration, normally fifteen years. Many factors outside our control determine the persistency of our customer relationships and we cannot be sure that the value we have allocated will ultimately be realized. Non-competition covenants and trademarks are intangible assets that have an indefinite life and, accordingly, are not amortized, but are evaluated for impairment under the new accounting standards as discussed under "—Effects of new accounting pronouncements." We have historically amortized goodwill primarily over a period of forty years. Under the new accounting standards, goodwill is not amortized and is evaluated annually for impairment.

For the past three years ended December 31, 2001, our amortization has been comprised of the following:

Year ended December 31,

(in thousands)	2001	2000	1999
Customer relationships	$ 759	$ —	$ —
Non-competition covenants	56	—	—
Goodwill	4,125	3,260	1,626
Total	$4,940	$3,260	$1,626

We estimate that our amortization charges for 2002 through 2006 for all acquisitions consummated to date will be:

Year ended December 31,

(in thousands)	2002	2003	2004	2005	2006
Customer relationships	$1,487	$1,487	$1,487	$1,487	$1,487
Non-competition covenants	80	24	—	—	—
Total	$1,567	$1,511	$1,487	$1,487	$1,487

EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations, Goodwill and Other Intangible Assets

In July 2001, we adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board Handbook Section 1581, "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets" (Section 1581 and Section 3062, respectively) for all business combinations accounted for using the purchase method consummated after that date. These sections harmonize Canadian standards with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 141 and No. 142 (SFAS No. 141 and SFAS No. 142, respectively). Section 1581 and SFAS No. 141 require that all business combinations be accounted for in accordance with the purchase method of accounting. We have historically used the purchase method to record acquisitions, with the exception of the initial 11 acquisitions in 1998, which was accounted for as a pooling-of-interests. Section 1581 and SFAS No. 141 also expand the definition of intangible assets acquired in a business combination accounted for using the purchase method. As a result, the purchase price allocation of future business combinations may be different than the allocation that would have resulted under the old rules. Business combinations must be accounted for using Section 1581 and SFAS No. 141 beginning on July 1, 2001. Our acquisition of Burnham, effective July 1, 2001, was accounted for under the provisions of Section 1581 and SFAS No. 141.

In accordance with the above, we completed valuations of our 2001 acquisitions and separately identified definite and indefinite life intangible assets, apart from goodwill acquired, as a result of our purchase business combinations accounted for using the purchase method.

Prior to 2001, we allocated the entire excess of the purchase price over net assets acquired to goodwill and primarily amortized that amount over a period of 40 years. Accordingly, there were no attempts to value and separately identify other intangible assets apart from goodwill associated with business combinations accounted for using the purchase method prior to 2001. For business combinations with a date of acquisition before July 1, 2001 accounted for by the purchase method, the transitional guidance of CICA Section 1581 and SFAS No. 141 require that the carrying amount of any recognized intangible assets that meet the recognition criteria and has been included in an amount reported as goodwill (or as goodwill and intangible assets) should be reclassified and accounted for as an asset, apart from goodwill, upon initial application of CICA Section 3062 and SFAS No. 142.

For acquisitions prior to 2001, we did not separately identify and recognize intangible assets apart from goodwill in our accounting records. Therefore, we intend to continue to report the carrying value of the excess of purchase price over net assets acquired as goodwill for purchase business combinations. We believe that this treatment is in accordance with the transitional provisions of CICA Section 1581 and SFAS No. 141.

In January 2002, we adopted CICA Section 3062 and SFAS No. 142 for all business combinations accounted for using the purchase method prior to June 30, 2001. CICA Section 3062 and SFAS No. 142 eliminate the amortization of goodwill, require annual impairment testing of goodwill, and introduce the concept of definite and indefinite life intangible assets. Indefinite life intangible assets, similar to goodwill, will no longer be amortized and will be tested, at least annually, for impairment. Definite life intangible assets will be amortized over the estimated useful life of the asset. CICA Section 3062 and SFAS No. 142 must be adopted on January 1, 2002.

These new requirements will increase our future net earnings by an amount equal to the amount of goodwill amortization that has been discontinued, offset by any goodwill impairment charges and additional amortization as a result of reclassification of other intangible assets, apart from goodwill. An initial impairment test must be performed as of January 1, 2002. Any resulting impairment charge from this initial test will be reported as a change in accounting principle, and charged to opening retained earnings, net of tax.

Although we have not completed our assessment of the impact of the new impairment testing rules or the reclassification rules, based on current conditions, we do not expect to incur a material transition goodwill impairment charge as of January 1, 2002. We do, however, expect that because goodwill will no longer be amortized and charged to earnings that there will be a significant impact on our consolidated earnings in 2002 when compared to consolidated earnings for prior years. Amortization expense related to goodwill and other intangible assets for the years ended December 31, 2001 was $4.9 million compared to $3.3 million and $1.6 million in 2000 and 1999, respectively.

Accounting for the disposal of long-lived assets

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principal Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB No. 30).

SFAS No. 144 generally retains the basic accounting model for the identification and measurement of impairments to long-lived assets to be held, and long-lived assets to be disposed. SFAS No. 144 broadens the definition of "discontinued operations," as previously defined by APB No. 30, but does not allow for the accrual of future operating losses, as was previously permitted under that standard. SFAS No. 144 also addresses several implementation and financial statement presentation issues not previously addressed under U.S. GAAP. SFAS No. 144 excludes from its scope financial accounting and reporting for the impairment of goodwill and other intangible assets.

The transitional guidance of SFAS No. 144 generally permits long-lived assets classified as held for disposal as a result of disposal activities that were initiated prior to SFAS No. 144's initial application to continue to be accounted for in accordance with the prior pronouncement applicable for that disposal. As such, our investment in Old Lyme, which is classified as held for disposal at December 31, 2001, will continue to be accounted for in accordance with generally accepted accounting principles applicable at the date that the disposal activities were initiated.

As of the time of this filing, the CICA has not harmonized Canadian GAAP with the provisions of SFAS No. 144. Accordingly, any impact related to the adoption of the provisions of SFAS No. 144 will be treated as a reconciling item between U.S. and Canadian GAAP. However, we do not anticipate that the provisions of SFAS No. 144 will have a material impact on our financial position or results of operations as reported under U.S. GAAP.

RISKS RELATED TO OUR BUSINESS

We may be unsuccessful in identifying and acquiring suitable acquisition candidates, which could impede our growth and ability to remain competitive in our industry.

Our strategic plan includes the regular and systematic evaluation and acquisition of insurance brokerages in new and existing markets. There can be no assurance, however, that we will successfully identify suitable acquisition candidates. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed once negotiations have commenced. We compete for acquisition and expansion opportunities with entities that have substantially greater resources than we do and these entities may be able to outbid us for these acquisition targets. If we fail to execute our acquisition strategy, our revenue growth is likely to suffer and we may be unable to remain competitive.

Our continued growth is partly based on our ability to acquire additional brokerages and our failure to integrate these brokerages successfully may have an adverse effect on our results of operations.

A significant element of our strategy is to acquire additional insurance brokerages. We cannot assure you that we will

successfully integrate brokerages we may acquire in the future. The integration of an acquisition involves a number of factors that may affect our operations. These factors include:

- diversion of management's attention,
- difficulties in the integration of acquired operations and retention of personnel,
- entry into unfamiliar markets,
- unanticipated problems or legal liabilities, and
- tax and accounting issues.

A failure to integrate acquired brokerages may be disruptive to our operations and negatively impact our revenue or increase our expenses.

Insurance brokerages that we have acquired may have liabilities that we are not aware of and may not be as profitable as we expect them to be.

Since our formation in November 1998 through the merger of 11 insurance brokerages, we have acquired an additional 78 brokerages. Although we conduct due diligence in respect of the business and operations of each of the companies we acquire, we cannot assure you that we have identified all material facts concerning these companies. Unanticipated events or liabilities relating to these companies could have a material adverse effect on our results of operations and financial condition. Furthermore, once we have integrated an acquired brokerage, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to integrate one or more acquired brokerages so that they achieve our performance goals may have a material adverse effect on our results of operations and financial condition.

If we fail to obtain additional financing for acquisitions, we may be unable to expand our business.

Our acquisition strategy may require us to seek additional financing. If we are unable to obtain sufficient financing on satisfactory terms and conditions, we may not be able to maintain or increase our market share or expand our business through acquisitions. Our ability to obtain additional financing will depend upon a number of factors, many of which are beyond our control. For example, we may not be able to obtain additional satisfactory financing because we already have debt outstanding and because we may not have sufficient cash flow to service or repay our existing or additional debt.

We cannot accurately forecast our commission revenue because our commissions depend on premium rates charged by insurance companies, which historically have varied and are difficult to predict. Any declines in premiums may adversely impact our profitability.

In 2001, we derived approximately 93% of our revenue from commissions paid by insurance companies on the sale of their insurance products to our clients. Our revenue from commissions fluctuates with premiums charged by insurers, as commissions typically are determined as a percentage of premiums. When premiums decline, we experience downward pressure on our revenue and earnings. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions. Significant reductions in premium rates occurred during the years 1988 through 2000 as a result of expanded underwriting capacity of property and casualty insurance companies and increased competition. In some cases, property and casualty insurance companies lowered commission rates. Because we cannot determine the timing and extent of premium pricing changes, we cannot accurately forecast our commission revenue, including whether it will significantly decline. If premiums decline or commission rates are reduced, our revenue, earnings and cash flow could decline. In addition, our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures may have to be adjusted to account for unexpected changes in revenue.

Insurance company contingent commissions and volume overrides are less predictable than normal commissions, which impairs our ability to forecast the amount of such revenue that we will receive and may negatively impact our operating results.

We derive a portion of our revenue from contingent commissions and volume overrides. The aggregate of these sources of revenue generally has accounted for 4% to 5% of our total revenue. Contingent commissions may be paid by an insurance company based on the profit it makes on the overall volume of business that we place with it. We generally receive these commissions in the first and second quarters of each year. Volume overrides are paid by an insurance company based on the volume of business that we place with it and are generally paid over the course of the year. As a result of recent developments in the property and casualty insurance industry, including changes in underwriting criteria due in part to the higher numbers and dollar value of claims as compared to the premiums collected by insurance companies, we cannot predict the payment of these performance-based revenues as well as we have been able to in the past. Further, we have no control over the process by which insurance companies estimate their own loss reserves, which affects our ability to forecast contingent commissions. Because these contingent commissions affect our revenue, any decrease in their payment to us could adversely affect our results of operations.

Proposed tort reform legislation in the United States, if enacted, could decrease demand for liability insurance, thereby reducing our commission revenue.

Legislation concerning tort reform is currently being considered in the United States Congress and in several states. Among the provisions being considered for inclusion in such legislation are limitations on damage awards, including

punitive damages, and various restrictions applicable to class action lawsuits, including lawsuits asserting professional liability of the kind for which insurance is offered under certain policies we sell. Enactment of these or similar provisions by Congress, or by states or countries in which we sell insurance, could result in a reduction in the demand for liability insurance policies or a decrease in policy limits of such policies sold, thereby reducing our commission revenue.

We have entered into put option arrangements with former shareholders of our acquired brokerages, J.P. Flanagan Corporation and Burnham Insurance Group, Inc., which may require us to pay substantial amounts to repurchase our common shares from these shareholders. Those payments would reduce our cash flow and the funds available to grow our business.

In connection with our acquisitions of Flanagan and Burnham, we entered into put option arrangements with the former shareholders of those companies whereby we gave them the right to require us to repurchase their shares of Hub that were issued in consideration of the acquisitions. The rights under the put arrangements may be exercised between 2006 and 2011, and if exercised, we could be required to buy back our common shares at C$17 per share at specific exercise dates set out in "Contingent Obligations" above. We may not have sufficient cash on hand on the exercise dates to satisfy our obligations under these put arrangements and as a consequence we may have to obtain additional financing. However, we may not be able to incur additional debt at such time. Our inability to satisfy our obligations under the put options may adversely affect our relationship with the management team at Flanagan and Burnham and may result in the loss of key management personnel from these subsidiaries and, in turn, the loss of customers, which would adversely affect our business and financial condition. In addition, our failure to satisfy our obligations under the put options may result in litigation.

A substantial portion of our total assets are represented by goodwill as a result of our acquisitions and under new accounting standards, we may be required to write down the value of our goodwill.

When we acquire a brokerage, virtually the entire purchase price for the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of purchase price allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets paid by us to acquire the brokerage.

On July 1, 2001, we adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board Handbook Section 1581, "Business Combinations." These new rules require that all business combinations after June 30, 2001 be accounted for in accordance with the purchase method of accounting and expand the definition of other identifiable intangible assets acquired in a business combination using the purchase method.

On January 1, 2002, we adopted CICA's Section 3062, "Goodwill and Other Intangible Assets." For all business combinations accounted for using the purchase method prior to June 30, 2001, Section 3062 eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of definite life and indefinite life intangible assets. Indefinite life intangible assets, similar to goodwill, will no longer be amortized and will be tested at least annually for impairment. We can give no assurance that the carrying value of our goodwill and other indefinite life intangible assets will not be affected by this new accounting standard.

The loss of members of our senior management or a significant number of our brokers could negatively affect our financial plans, marketing and other objectives.

The loss of, or failure to attract, key personnel could significantly impede our financial plans, growth, marketing and other objectives. Our success depends to a substantial extent not only on the ability and experience of our senior management but also on the individual brokers and teams that service our clients and maintain client relationships. Our operations are not generally dependent on any one individual; however, the loss of Martin Hughes, our Chairman and Chief Executive Officer, or Bruce Guthart, our President, U.S. Operations, could negatively impact our acquisition strategy in the United States due to their significant relationships and expertise in the insurance industry.

The insurance brokerage industry has in the past experienced intense competition for the services of leading individual brokers and brokerage teams. We believe that our future success will depend in large part on our ability to attract and retain additional highly skilled and qualified personnel and to expand, train and manage our employee base. We may not be successful in doing so because the competition for qualified personnel in our industry is intense. If we fail to recruit and retain top producers, our organic growth may be adversely affected.

Competition in our industry is intense, and if we are unable to compete effectively, we may lose market share and our business may be materially adversely affected.

The insurance brokerage business is highly competitive and we actively compete with other insurance brokerages for customers and insurance company markets, many of which have existing relationships with insurance companies or have a significant presence in niche insurance markets that may give them an advantage over us. Because relationships between insurance brokers and insurance companies or clients are often local or regional in nature, this potential competitive disadvantage is particularly pronounced.

We face competition in all markets in which we operate, based on product breadth, innovation, quality of service and price. We compete with a number of brokerages, such as Arthur J. Gallagher & Co., Hilb, Rogal and Hamilton

Company, and Brown and Brown, Inc., in the United States who may have greater resources that we do, as well as with numerous internet-based, specialist and regional firms in the United States and Canada. If we are unable to compete effectively against our competitors, we will suffer a loss of market share, decreased revenue and reduced operating margins.

In addition, regulatory changes in the financial services industry in the United States and Canada have permitted banks, securities firms and insurance companies to affiliate, causing rapid consolidation in the insurance industry. Some insurance companies are engaged in the direct sale of insurance, primarily to individuals, and do not pay commissions to agents and brokers on policies they sell directly. Increasing competition from insurance companies and from within the financial services industry, generally, could have a negative effect on our operations.

We do business with certain subsidiaries of our largest shareholder and if a conflict of interest were to arise it may not be resolved in our favor and could adversely affect our revenue.

Fairfax Financial Holdings Limited owns 37% of our common shares. We do business with certain subsidiaries of Fairfax which represented approximately 4.9% of our revenue in 2001. We expect that this percentage will increase as a result of our sale of Old Lyme to Fairfax, as we will continue to do a significant amount of business with Old Lyme. If a conflict of interest were to arise between us and Fairfax or one of its subsidiaries, we cannot assure you that this conflict would be resolved in a manner that would favor us. In addition, if Fairfax were to sell our common shares that it owns, it may no longer be as interested in providing us with financial assistance or continuing to do business with us which could have a material adverse effect on our financial condition.

We depend on our information processing systems. Interruption or loss of our information processing systems could have a material adverse effect on our business.

Our ability to provide administrative services depends on our capacity to store, retrieve, process and manage significant databases and expand and upgrade periodically our information processing capabilities. Interruption or loss of our information processing capabilities through loss of stored data, breakdown or malfunctioning of computer equipment and software systems, telecommunications failure, or damage caused by fire, tornadoes, lightning, electrical power outage, or other disruption could have a material adverse effect on our business, financial condition and results of operations. Although we have disaster recovery procedures in place for all our hub brokerages and insurance to protect against such contingencies, we cannot assure you that such procedures will be effective or that such insurance or recovery procedures will continue to be available at reasonable prices, address all such losses or compensate us for the possible loss of clients occurring during any period that we are unable to provide services.

Privacy legislation may impede our ability to utilize our customer database as a means to generate new sales.

We intend to utilize our extensive customer databases for marketing and sales purposes, which we believe will enhance our ability to meet our organic growth targets. However, new privacy legislation, such as the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act of 1996 in the United States and the Personal Information Protection and Electronic Documents Act in Canada, as well as other regulatory changes, may restrict our ability to utilize personal information that we have collected in our normal course operations to generate new sales. If we became subject to new restrictions, or other regulating restrictions which we are not aware of, our ability to grow our business may be adversely affected.

The security of the databases that contain our customers' personal information may be breached which could subject us to litigation or adverse publicity.

Our technology may fail to adequately secure personal information we maintain in our databases and protect it from inadvertent leakage or theft. In such circumstances, we may be held liable to our customers, which could result in litigation or adverse publicity that could have a material adverse effect on our business.

Our corporate structure and strategy of operating through decentralized brokerages may make it more difficult for us to become aware of and respond to adverse operating or financial developments at our brokerages.

We depend on timely and accurate reporting of business conditions and financial results from our brokerages to effect our business plan and determine and report our operating results. We receive end of month reports from each of our brokerages regarding their financial condition and operating results. If an adverse business or financial development occurs at one or more of our brokerages near the beginning of a month, we may not become aware of the occurrence for several weeks which could make it more difficult for us to effectively respond to that development. In addition, if one of our brokerages were to report inaccurate financial information, we might not learn of these inaccuracies for several weeks, if at all, which could adversely affect our ability to determine and report our financial results. We are investigating the purchase of enterprise reporting software that would enable us to extract financial and operating data from our brokerages electronically and on a real-time basis. We anticipate that such a system will be implemented in 2003. However, we cannot assure you that it can be implemented within this time frame or whether it will be effective.

Our business, results of operations, financial condition or liquidity may be materially adversely affected by errors and omissions.

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions. Errors and omissions claims can involve significant defense costs and may result in large damage awards against us. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or to notify insurance companies of claims on behalf of clients, to provide insurance companies with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our clients on a fiduciary basis. It is not always possible to prevent and detect errors and omissions and the precautions we take may not be effective in all cases.

Our results of operations, financial condition or liquidity may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liabilities for which we self-insure. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

If we fail to comply with regulatory requirements for insurance brokerages, we may not be able to conduct our business.

Our business is subject to legal requirements and governmental and regulatory supervision in the jurisdictions in which we operate. These requirements are designed to protect our clients by establishing minimum standards of conduct and practice, particularly regarding the provision of advice and product information as well as financial criteria.

Our activities in the United States and Canada are subject to regulation and supervision by state and provincial authorities. Although the scope of regulation and form of supervision by state and provincial authorities may vary from jurisdiction to jurisdiction, insurance laws in the United States and Canada are often complex and generally grant broad discretion to supervisory authorities in adopting regulations and supervising regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling and investment of client funds held in a fiduciary capacity. Our ability to conduct our business in the jurisdictions in which we currently operate depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions.

Our clients have the right to file complaints with the regulators about our services, and the regulators may investigate or require us to address these complaints. Our failure, to satisfy the regulators that we are in compliance with their requirements or the legal requirements governing our activities can result in disciplinary action, fines, reputational damage and financial harm.

In addition, changes in legislation or regulations and actions by regulators, including changes in administration and enforcement policies, could from time to time require operational improvements or modifications at various locations which could result in higher costs or hinder our ability to operate our business.

Consolidated Balance Sheets

As of December 31, 2001 and 2000

(in thousands of U.S. dollars)	2001	2000 *(As restated see note 2)*
Assets		
Current assets:		
Cash and cash equivalents	$ 26,979	$ 19,919
Trust cash	50,426	12,356
Accounts and other receivables	101,313	41,975
Investment held for sale	40,772	—
Income taxes receivable	1,460	2,382
Future income taxes	1,999	—
Prepaid expenses	2,471	872
Total current assets	225,420	77,504
Capital assets	20,935	7,208
Other intangible assets	25,331	—
Goodwill	220,848	117,744
Future income taxes	2,671	368
Other assets	7,091	3,333
Total assets	$502,296	$206,157
Liabilities		
Current liabilities:		
Bank debt	$ 55,000	$ —
Accounts payable and accrued liabilities	164,094	57,601
Income taxes payable	—	927
Future income taxes	1,387	—
Current portion long-term debt and capital leases	4,169	2,167
Total current liabilities	224,650	60,695
Long-term debt and capital leases	76,159	32,498
Subordinated convertible debentures	61,624	—
Future income taxes	4,592	752
Total liabilities	367,025	93,945
Commitments and Contingencies		
Shareholders' equity		
Share capital	125,506	111,430
Cumulative translation account	2,770	195
Retained earnings	6,995	587
Total shareholders' equity	135,271	112,212
	$502,296	$206,157

(the accompanying notes form an integral part of the financial statements)

Signed on behalf of the Board

A P Griffiths　　　　John C. Varnell

Director　　　　Director

Consolidated Statements of Earnings

For the years ended December 31, 2001, 2000 and 1999

(in thousands of U.S. dollars, except per share amounts)	**2001**	2000	1999
		(As restated see note 2)	*(As restated see note 2)*
Revenue			
Commission income	**$142,851**	$86,410	$47,964
Contingent commissions and volume overrides	**5,946**	4,909	2,824
Other	**5,196**	3,921	3,309
	153,993	95,240	54,097
Expenses			
Remuneration	**88,015**	54,701	29,519
Selling	**8,359**	4,840	3,036
Occupancy	**9,061**	5,756	3,393
Depreciation	**3,940**	1,885	1,275
Administration	**17,856**	11,182	6,806
	127,231	78,364	44,029
Net earnings before the following	**26,762**	16,876	10,068
Interest expense	**7,447**	1,981	632
Goodwill and intangible asset amortization	**4,940**	3,260	1,626
(Gain) loss on disposal of capital assets and investments	**(173)**	127	14
Other income—put option liability	**(719)**	—	—
Net earnings before income taxes	**15,267**	11,508	7,796
Provision for income tax expense (benefit)			
Current	**4,967**	4,907	4,260
Future	**295**	463	(208)
	5,262	5,370	4,052
Net earnings	**$ 10,005**	$ 6,138	$ 3,744
Earnings per share			
Basic	**$ 0.53**	$ 0.34	$ 0.22
Diluted	**$ 0.50**	$ 0.34	$ 0.22
Weighted average shares outstanding—Basic (000's)	**19,012**	18,327	16,941
Weighted average shares outstanding—Diluted (000's)	**20,105**	18,327	16,941

(the accompanying notes form an integral part of the financial statements)

Consolidated Statements of Retained Earnings (Deficit)

For the years ended December 31, 2001, 2000 and 1999

(in thousands of U.S. dollars)	**2001**	2000	1999
		(As restated see note 2)	*(As restated see note 2)*
Retained earnings (deficit)—Beginning of year	$ 587	$(2,049)	$(3,159)
Net earnings	10,005	6,138	3,744
Excess over stated value of shares purchased	—	(1,046)	(2,634)
Dividends	(3,597)	(2,456)	—
Retained earnings (deficit)—End of year	$ 6,995	$ 587	$(2,049)

(the accompanying notes form an integral part of the financial statements)

Consolidated Statements of Cash Flows

For the years ended December 31, 2001, 2000 and 1999

(in thousands of U.S. dollars)	2001	2000	1999
		(As restated see note 2)	*(As restated see note 2)*
Operating activities			
Net earnings	$ 10,005	$ 6,138	$ 3,744
Items not affecting working capital			
Amortization and depreciation	8,880	5,145	2,901
(Gain) loss on disposal of capital assets and investments	(173)	127	14
Other income—put option liability	(719)	—	—
Future income taxes	295	463	(208)
	18,288	11,873	6,451
Non-cash working capital items			
Accounts and other receivables	(5,511)	(2,330)	(3,331)
Prepaid expenses	(299)	(283)	128
Accounts payable and accrued liabilities	32,571	6,122	1,953
Income taxes	1,863	(2,575)	(98)
	46,912	12,807	5,103
Financing activities			
Bank debt	55,122	(16,425)	14,178
Long-term debt—advances	21,096	29,835	92
Subordinated convertible debentures	61,624	—	—
Long-term debt and capital leases—repayments	(5,154)	(2,501)	(14,529)
Share capital—issued for cash, net of issue costs	3,621	—	65,534
Share capital—repurchases	(281)	(2,840)	(6,781)
Dividends	(3,597)	(2,456)	—
	132,431	5,613	58,494
Investing activities			
Capital assets—purchases	(10,298)	(2,050)	(1,243)
Capital assets—proceeds on sale	96	222	76
Purchase of subsidiaries, net of cash received	(123,365)	(18,932)	(29,203)
Other assets	(646)	2,777	(4,285)
	(134,213)	(17,983)	(34,655)
Change in cash and cash equivalents and trust cash	45,130	437	28,942
Cash and cash equivalents and trust cash—Beginning of year	32,275	31,838	2,896
Cash and cash equivalents and trust cash—End of year	$ 77,405	$ 32,275	$ 31,838

(the accompanying notes form an integral part of the financial statements)

For the years ended December 31, 2001, 2000 and 1999

(in thousands of U.S. dollars, except per share amounts or as otherwise indicated)

1. Nature of operations

Business operations

Hub International Limited (the "Company") is an international insurance brokerage which provides a variety of property and casualty, life and health, employee benefits, investment and risk management products and services.

Business combinations

Acquisitions of subsidiaries have been accounted for using the purchase method, whereby the results of acquired companies are included only from the date of acquisition.

Effective June 28, 2001, the Company acquired Kaye Group Inc. (Kaye). Kaye, primarily an insurance broker, also underwrote insurance risks through its subsidiaries, Old Lyme Insurance Company of Rhode Island Inc. and Old Lyme Insurance Company, Ltd. (collectively Old Lyme). The Company did not want to retain the underwriting risk associated with Old Lyme, and indicated prior to the effective date of the acquisition that it intended to find a purchaser for the Old Lyme operations as soon as possible after closing.

At December 31, 2001, the net assets and liabilities of Old Lyme are recorded at their original cost as an investment held for sale in the Company's consolidated balance sheet. The net earnings of the Old Lyme operations from the date of acquisition to December 31, 2001 have been excluded from the Company's 2001 consolidated statement of earnings and, accordingly, transactions with Old Lyme have not been eliminated on consolidation. The amount of Old Lyme net earnings excluded from consolidated net earnings for the period ended December 31, 2001 was approximately $1,833.

On December 31, 2001, Kaye entered into a stock purchase agreement with Fairfax Inc. to sell all of the issued and outstanding shares of Old Lyme, pending regulatory approval. Fairfax Inc. is a subsidiary of Fairfax Financial Holdings Limited (Fairfax), which currently owns approximately 37% of the Company's outstanding shares. The agreed-upon purchase price (which is considered to be fair market value) is Old Lyme's December 31, 2001 stockholder's equity of approximately $42,800 determined in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The purchase price will be increased by four percent, compounded annually, from January 1, 2002, until the closing date. Any difference between the actual purchase price at the closing date and the carrying amount of the investment held for sale in the Company's consolidated balance sheet will be recorded as a gain or loss on the sale of investment at the closing date.

2. Summary of significant accounting policies

These consolidated financial statements of the Company are expressed in United States of America (U.S.) dollars and have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These principles differ in certain respects from United States GAAP and to the extent that they affect the Company, the differences are described in note 17, "Reconciliation to U.S. GAAP." The more significant of the accounting policies are as follows:

Basis of presentation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

Change in reporting currency

The Company's consolidated financial statements have historically been expressed in Canadian dollars. Effective September 30, 2001, the Company adopted the U.S. dollar as its reporting currency. Comparative financial information has been restated in U.S. dollars using the translation of convenience method. At September 30, 2001, all historical financial statements were converted from Canadian to U.S. dollars at the exchange rate in effect at September 30, 2001 of one Canadian dollar to 0.6338 U.S. dollar.

Foreign currency translation

The assets and liabilities of these subsidiaries as at December 31, 2001 were translated to U.S. dollars at the year end exchange rate. Revenue and expenses subsequent to September 30, 2001 were translated to U.S. dollars at the average exchange rate for the period. The operations of the Company's subsidiaries outside of the U.S. are self-sustaining. Accordingly, the unrealized gains and losses which result from this translation are deferred and included in shareholders' equity under the caption "Cumulative translation account."

Revenue recognition

Commission income and fees, (including commission income related to installment billing arrangements) are generally recognized as of the latter of the effective date of the policy or the date at which the amount can be reasonably estimated. Commission income is reported net of sub-broker commission expense. Commission and other adjustments are recorded when they occur, and the Company maintains an allowance for estimated policy cancellations and commission returns. The Company is entitled to contingent commissions and volume overrides from insurance companies and are recorded in the earlier of the period in which amounts can be reasonably estimated or the period in which amounts are received.

Cash and cash equivalents and trust cash

Cash and cash equivalents consist of cash, highly liquid investments having maturities of three months or less and trust cash. The carrying amounts on the balance sheet approximate fair value.

Premiums collected (less commissions and other deductions) but not yet remitted to insurance carriers are included in trust cash. Trust cash is restricted as to use by contractual obligations and by laws in certain states and provinces in which the Company operates.

Capital assets

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation is recorded based on useful economic lives, using principally the declining balance method at a rate which ranges between 20% and 30%. Leasehold improvements are amortized on the straight-line method over the term of the related lease. Upon sale or retirement, the cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is reflected in earnings.

Goodwill

Goodwill, equal to the excess of the purchase price over the fair value of net identifiable assets acquired, relating to acquisitions which took place before July 1, 2001, is amortized to earnings on a straight-line basis over 40 years. Goodwill relating to acquisitions which took place on or after July 1, 2001 is carried at cost and reviewed annually for impairment.

In June 2001, the Canadian Institute of Chartered Accountants approved a new Handbook Section 3062, "Goodwill and Other Intangible Assets". From January 1, 2002, goodwill will no longer be amortized but will be subject to regular review for impairment. The impact of ceasing the amortization of goodwill on the year ended December 31, 2002 will likely be to increase net earnings before income taxes by approximately $3,400. The Company does not anticipate any other material impact on the financial statements as a result of implementation of this new accounting standard.

The new rule harmonizes Canadian GAAP with U.S. GAAP.

Other intangible assets

Intangible assets arising from purchase acquisitions principally represent the fair value of customer relationships, company trademarks and non-competition covenants. Definite life intangible assets are amortized to earnings on a straight-line basis over the estimated useful life of the asset, averaging 15 years. Indefinite life intangible assets are carried at cost and reviewed annually for impairment.

Investment held for sale

The investment held for sale (Old Lyme) is recorded at cost, which is at or below market value.

Future income taxes

Income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the asset or liability is settled. The benefit of loss carryforwards is recognized as an asset to the extent that it is more likely than not to be recoverable from future profitable operations. The principal temporary differences are related to loss carryforwards, goodwill and other intangible asset amortization and reserves.

Estimates and assumptions

Preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amount of revenue and expense during the reporting period. Actual results could differ from those estimated.

Earnings per share

Basic earnings per share, excluding the dilutive effect of common share equivalents, is calculated by dividing net earnings by the weighted average number of common shares

outstanding for the year. Diluted earnings per share are calculated using the treasury stock method and include the effects of all potentially dilutive securities. Earnings per common share has been compiled below:

	2001	2000	1999
Net income (numerator)	$10,005	$ 6,138	$ 3,744
Weighted average common shares and effect of dilutive shares used in the computation of earnings per share:			
Average shares outstanding—basic (denominator)......	19,012	18,327	16,941
Effect of dilutive shares*....	1,093	—	—
Average shares outstanding—diluted (denominator)	20,105	18,327	16,941
Earnings per common share:			
Basic..................	$ 0.53	$ 0.34	$ 0.22
Diluted	$ 0.50	$ 0.34	$ 0.22

**Reflects dilutive effect of all put options issued in connection with certain 2001 acquisitions. The subordinated convertible debentures are anti-dilutive.*

Written put options

The fair value of put options issued by the Company as consideration for businesses acquired is classified as long-term debt until such time as the option is exercised or expires. Changes in the fair value of these options are recorded in earnings.

3. Acquisitions

The Company's strategic business plan includes the regular and systematic evaluation and acquisition of insurance brokerages in new and existing markets. Insurance brokerages, due to their nature, typically maintain a very low capital to earnings ratio. As a result, the Company recorded a substantial amount of goodwill and other intangible assets in connection with these acquisitions.

The Company typically pays a portion of the consideration for an acquired brokerage in cash. Consideration for the remainder of the purchase price is normally in the form of the Company's common shares. The Company's common shares issued in consideration for acquired brokerages are valued based on the quoted market price, on the Toronto Stock Exchange, for a short period before and after the closing date of the business combination.

a) During 2001, the Company purchased all of the issued and outstanding shares of Kaye, Burnham Stewart Group, Inc. (Burnham) and J.P. Flanagan Corporation (Flanagan), as well as the outstanding shares or net assets of 13 other brokerages, all of which were acquired using the purchase method of accounting. Accordingly, the results of operations and cash flows of the acquired companies have been included in the Company's consolidated results from their respective acquisition dates.

The allocation of the purchase price, including goodwill and other identifiable intangible assets, and the cost of the acquired brokerages are summarized as follows:

	Kaye	Burnham	Flanagan	Others	Total
Acquisition Date	June 28, 2001	July 1, 2001	May 31, 2001	Various	
Working capital	$ 43,141	$ 3,002	$ (703)	$ (216)	$ 45,224
Capital and other assets	7,413	1,580	79	(244)	8,828
Long-term debt and capital leases assumed	(1,449)	(8,200)	(1,339)	(70)	(11,058)
Net assets (liabilities), at fair value..............	$ 49,105	$(3,618)	$(1,963)	$ (530)	$ 42,994
Consideration					
Cash..................................	$125,131	$11,533	$ 776	$ 3,950	$141,390
Debt..................................	—	12,435	7,210	1,760	21,405
Shares	—	6,191	1,821	557	8,569
	$125,131	$30,159	$ 9,807	$ 6,267	$171,364
Goodwill	$ 59,816	$27,269	$ 8,838	$ 6,001	$101,924
Customer relationships......................	12,992	5,690	2,242	796	21,720
Trademarks	1,714	623	250	—	2,587
Non-competition covenants	1,204	195	440	—	1,839
	$ 75,726	$33,777	$11,770	$ 6,797	$128,070
Number of shares issued as consideration (000's)...	—	1,743	730	51	2,524

Contingent consideration

In addition to the consideration shown above, the previous owners of Burnham, Flanagan and other subsidiaries, are entitled to contingent consideration if certain revenue and profitability targets are met. Purchase price allocations for Flanagan and Burnham are subject to adjustment for future consideration issued.

Flanagan

The following table summarizes the contingent consideration that may be issued in connection with the acquisition of Flanagan:

Year	Contingent consideration (000's)	Contingent consideration target criteria
2001	50 shares	Revenue and Profitability
2002	38 shares	Revenue
2002	38 shares	Profitability
2003	88 shares	Revenue
2003	37 shares	Profitability

As of December 31, 2001, the contingent consideration criteria for 2001 were met. Accordingly, the Company has an obligation to issue 50 shares in the amount of $478. The additional purchase consideration has been recorded in goodwill and share capital as of December 31, 2001.

Burnham

The owners of Burnham shall be entitled to contingent consideration in the event that the acquired Burnham operations meet certain profitability targets for the twelve-month period ended June 30, 2002. The contingent consideration to be issued, if the profitability criteria are met, shall be a portion of actual profitability in excess of the target. Any contingent consideration issued by the Company shall be paid 38% in cash, 51% in restricted shares of the Company's common shares, and 11% in unrestricted shares of the Company's common shares.

Others

An additional $400 of contingent consideration, based primarily on revenue targets, may also be issued in connection with other acquisitions made by the Company in 2001.

b) During 2000, the Company purchased all of the issued and outstanding shares of C.J. McCarthy Insurance Agency Inc. (McCarthy), as well as the outstanding shares or net assets of 17 other brokerages, all of which were acquired using the purchase method of accounting. Accordingly, the results of operations and cash flows of the acquired companies have been included in the Company's consolidated results from their respective acquisition dates.

The allocation of the purchase price, including goodwill, and the cost of the acquired brokerages are summarized as follows:

	McCarthy	Others	Total
Acquisition date	June 30, 2000	Various	
Working capital	$ 3,033	$ (1,600)	$ 1,433
Capital and other assets	487	363	850
Long-term debt and capital leases assumed	(899)	(24)	(923)
Net assets (liabilities), at fair value	$ 2,621	$ (1,261)	$ 1,360
Consideration			
Cash	$18,236	$ 6,710	$24,946
Debt	—	1,951	1,951
Shares	4,415	466	4,881
	$22,651	$ 9,127	$31,778
Goodwill	$20,030	$10,388	$30,418
Number of shares issued as consideration (000's)	465	43	508

c) During 1999, the Company purchased all of the issued and outstanding shares of 44 brokerages, all of which were acquired using the purchase method of accounting. Accordingly, the results of operations and cash flows of the acquired companies have been included in the Company's consolidated results from their respective acquisition dates.

The allocation of the purchase price, including goodwill, and the cost of the acquired brokerages are summarized as follows:

	Mack and Parker, Inc.	TOS Insurance Services Ltd.	Others	Total
Acquisition date	October 27, 1999	August 31, 1999	Various	
Working capital	$ 3,283	$ 441	$ (632)	$ 3,092
Capital and other assets	793	1,296	1,246	3,335
Long-term debt and capital leases assumed	(251)	(2,219)	(3,825)	(6,295)
Net assets (liabilities), at fair value	$ 3,825	$ (482)	$ (3,211)	$132
Consideration				
Cash	$10,082	$ 4,376	$22,097	$36,555
Shares	13,249	4,496	12,586	30,331
	$23,331	$ 8,872	$34,683	$66,886
Goodwill	$19,506	$ 9,354	$37,894	$66,754
Number of shares issued as consideration (000's)	1,103	417	1,185	2,705

4. Accounts and other receivables

Accounts and other receivables consist of the following:

December 31,	2001	2000
Client premiums receivable	$ 80,488	$ 33,430
Commissions receivable	18,214	5,870
Less: Allowance for doubtful accounts and policy cancellations	(1,427)	(502)
	97,275	38,798
Other receivables	4,038	3,177
	$101,313	$ 41,975

Allowance for doubtful accounts and policy cancellations:

	2001	2000	1999
Balance, January 1	$ 502	$309	$110
Charged to net earnings before income taxes	340	26	188
Acquired through acquisitions	585	167	11
Balance, December 31	$1,427	$502	$309

5. Capital assets

December 31,	2001	2000
Leasehold improvements	$ 10,043	$ 1,929
Office equipment	11,140	6,570
Computer equipment	13,620	8,900
	34,803	17,399
Accumulated depreciation and amortization	(13,868)	(10,191)
Net book value	$ 20,935	$ 7,208

During 2001 and 2000, capital assets were acquired at an aggregate cost of $11,534 and $2,395, respectively, of which $1,236 and $345 were acquired by means of capital leases.

The cost above reflects certain capital assets held under capital leases of which the remaining liability at December 31, 2001 and 2000 was $1,470 and $667, respectively.

6. Other intangible assets and goodwill

As of December 31, 2001, the gross carrying amount and accumulated amortization of intangible assets were as follows:

	Gross carrying amount	Accumulated amortization	Total
Definite life intangible assets:			
Customer relationships	$21,720	$759	$20,961
Indefinite life intangible assets:			
Non-competition covenants	2,587	56	2,531
Trademarks	1,839	—	1,839
Total	$26,146	$815	$25,331

The Company is unable to estimate the useful life of non-competition covenants and trademarks. These indefinite life intangible assets will be reviewed annually for impairment. Once a non-competition covenant is triggered, the Company's policy is to amortize the related intangible asset over the period of the remaining contractual obligation.

The changes in the carrying amount of goodwill for the years ended December 31, 2001 and 2000, are as follows:

	Operations in Canada	Operations in USA	Total
Balance as of January 1, 2000	$67,760	$ 22,051	$ 89,811
Goodwill acquired during 2000	10,388	20,030	30,418
Amortization of goodwill during 2000	(2,501)	(759)	(3,260)
Cumulative translation adjustment	—	775	775
Balance as of December 31, 2000	$75,647	$ 42,097	$117,744
Goodwill acquired during the period January 1, 2001 to June 30, 2001	1,255	67,848	69,103
Goodwill acquired during the period July 1, 2001 to December 31, 2001	556	32,265	32,821
Amortization of goodwill during 2001	(2,292)	(1,833)	(4,125)
Cumulative translation adjustment	(884)	6,189	5,305
Balance as of December 31, 2001	$74,282	$146,566	$220,848

Goodwill acquired prior to July 1, 2001 is amortized on a straight-line basis over a period of 40 years. Accumulated amortization was $14,822 and $10,482 at December 31, 2001 and 2000, respectively.

For the years ended December 31, 2001, 2000 and 1999 amortization has been comprised of the following:

	2001	2000	1999
Customer relationships	$ 759	$ —	$ —
Non-competition covenants	56	—	—
Goodwill	4,125	3,260	1,626
Total	$4,940	$3,260	$1,626

7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

December 31,	2001	2000
Insurance premiums payable	$122,668	$42,472
Accrued liabilities	41,426	15,129
	$164,094	$57,601

8. Debt

Bank debt

At December 31, 2001, the Company had bank debt consisting of three separate credit facilities:

- $25 million facility. Borrowings under this facility are accessed at a floating rate of 135 basis points above LIBOR, which was 2.09% as of December 31, 2001. This facility is guaranteed by certain of the Company's subsidiaries and by Fairfax. It expires on July 18, 2002 and contains covenants that, among other things, require the Company to maintain certain financial ratios, restrict its ability to incur additional debt, and limit quarterly dividends to C$0.07 per share. As of December 31, 2001, $25 million was drawn on this facility. The Company intends to fully repay and terminate this facility with proceeds from the sale of Old Lyme.
- $25 million facility. Borrowings under this facility are accessed either at a floating rate of 150 basis points above LIBOR, which was 2.09% as of December 31, 2001, or at a fixed interest rate of 9%. This facility is guaranteed by certain of the Company's subsidiaries. It expires on July 17, 2002 and contains covenants that, among other things, require the Company to maintain certain financial ratios, restrict its ability to incur additional debt and limit quarterly dividend payments to C$0.07 per share. As of December 31, 2001, $24.5 million was drawn on this facility, $23 million at a floating interest rate and $1.5 million at a fixed interest rate, which is included in long-term debt and is due October 31, 2005. We intend to repay approximately $4.5 million of this facility with the proceeds from the sale of Old Lyme.
- $7.5 million facility. Borrowings under this facility are at an interest rate of prime, which was 4.75% as of December 31, 2001, plus 1%. Payment is due on demand. As of December 31, 2001, $7.0 million had been drawn on this facility. The Company intends to fully repay and terminate this facility with the proceeds from the sale of Old Lyme.

The Company has agreed to sell Old Lyme to a subsidiary of Fairfax for approximately $42.8 million, subject to obtaining regulatory approval. The Company intends to use the proceeds from the sale of Old Lyme to repay debt.

As of September 30, 2001, the Company was not in compliance with certain financial covenants relating to the maintenance of certain ratios under both of the $25 million credit facilities. The non-compliance was the direct result of a delay in reaching a final agreement for the sale of Old Lyme, the proceeds of which would have been used to repay debt. The Company's lenders have granted waivers with respect to the non-compliance with these covenants. In addition, the Company has negotiated amended agreements,

with respect to these covenants, with these lenders as of December 31, 2001. The amendments are for the remaining life of the loans. Under the amended agreements, the Company is in compliance with all the financial covenants governing the respective credit facilities as of December 31, 2001.

Long-term debt and capital leases

	2001	2000
Revolving U.S. Dollar LIBOR loans at 3.2%	$49,454	$29,835
Put options (see below)	17,274	—
Term loan with interest at prime plus ¾%, repayable at $22 monthly, due August, 2005*	849	1,130
Term loan with interest at 9%, repayable at $46 monthly, due October, 2005*	1,533	—
Term loan with interest at 7.8%, repayable at $367 quarterly, due June 2002*	728	—
Term loan with interest at 7.75% repayable at $13 monthly, due March 2002*	38	—
Note payable with interest at 5.92%, repayable at $272 annually, due November 2005	953	1,103
Term loan with interest at 8.25%, repayable at $364 semi-annually, due June 2007*	4,007	—
Term loan with interest at 8%, repayable at $18 monthly, due July 2010	1,353	—
Various other unsecured notes payable and debt	2,669	1,702
Capital leases*	1,470	667
Term loans repaid during the year	—	228
Long-term debt and capital leases	80,328	34,665
Less current portion	(4,169)	(2,167)
	$76,159	$32,498

**Certain capital assets have been pledged as collateral in amounts not less than the outstanding balance at December 31, 2001.*

Revolving U.S. dollar LIBOR loans

Borrowings under this facility total $50 million and are accessed at a floating rate of 112.5 basis points above LIBOR, which was 2.09% as of December 31, 2001. This facility expires on June 20, 2002 and requires the Company to maintain certain financial ratios. The Company intends to extend the facility for a further period of one year; however, if the revolving period is not extended, any amounts outstanding will automatically convert into a three-year term loan at a fixed interest rate equal to the Canadian dollar interest swap rate quoted by the lender plus 1.375%. As of December 31, 2001 $49.5 million had been drawn on this facility. The Company intends to pay down approximately $5 million of this facility with the proceeds from the sale of Old Lyme.

Put options

Long-term debt includes the estimated value of the financial liability of $17,274 relating to written put option agreements on 2,103 common shares, exercisable at a price of C$17.00 per share, issued to former owners of brokerages acquired who are officers and employees of the Company. The put options are exercisable as follows:

Date	Number of shares (000's)
June 18, 2006	340
July 1, 2006	873
June 18, 2007	68
June 18, 2011	272
July 1, 2011	550

The Company will not be required to settle the liabilities in cash if the common share price exceeds C$17.00 on each of the above mentioned exercise dates. Any options not exercised on the exercise date immediately expire.

Subordinated convertible debentures

In connection with the acquisition of Kaye on June 28, 2001, we issued: (1) $26.6 million aggregate principal amount of 8.5% convertible subordinated notes due June 28, 2006 to a third-party, the third-party notes; and (2) $35 million aggregate principal amount of 8.5% convertible subordinated notes due June 28, 2007 to certain subsidiaries of Fairfax, the Fairfax notes. These convertible notes were anti-dilutive to earnings per share as of December 31, 2001.

The third-party notes are convertible at any time into the Company's common shares at C$17.00 per share, subject to mandatory conversion at June 28, 2006. The Company subsequently entered into an agreement whereby the third-party agreed not to convert the notes into common shares before June 30, 2002 and also agreed to allow the Company to repay the notes, in whole or in part, on or before June 30, 2002 without penalty.

The Fairfax notes are convertible by the holders at any time into the Company's common shares at C$17.00 per share. Beginning June 28, 2006, the Company may require conversion of the Fairfax notes into common shares at C$17.00 per share if, at any time, the weighted average closing price of the Company's common shares for twenty consecutive trading days equals or exceeds C$19.00 per share. If converted, Fairfax would own approximately 45% of the total outstanding common shares as of December 31, 2001.

Future repayment of long-term debt and capital leases is as follows:

Year ending December 31,	
2002	$ 4,169
2003	2,794
2004	2,478
2005	51,365
2006	11,016
2007 and thereafter	8,506
	$80,328

9. Commitments and contingencies

a) The Company is committed under lease agreements for office premises and computer equipment. At December 31, 2001, aggregate minimum rental commitments (net of expected sub-lease receipts) under operating leases of $53,766 are summarized as follows:

2002	$ 9,061
2003	$ 7,909
2004	$ 6,968
2005	$ 6,311
2006	$ 5,680
2007 and thereafter	$17,837

b) The Company may, under certain circumstances, be obligated to purchase loans for officers, directors and employees from a Canadian chartered bank totaling $5,542 (2000—$5,896) to assist in purchasing common shares of the Company. As collateral, the employees have pledged 669 (2000—690) common shares which have a year-end market value of $6,389 (2000—$5,683). Interest in the amount of $377 (2000—$397) on the loans was paid by the Company.

c) In the ordinary course of business, the Company and its subsidiaries are subject to various claims and lawsuits consisting primarily of alleged errors and omissions in connection with the placement of insurance. In the opinion of management, the ultimate resolution of all asserted and potential claims and lawsuits will not have a material effect on the consolidated financial position or results of operations of the Company.

10. Shareholders' equity

At December 31, 2001 and 2000, there were an unlimited number of non-voting, preferred shares authorized, issuable in series on such terms and conditions as set by the Board of Directors, of which no shares were issued. At December 31, 2001 and 2000, there were an unlimited number of common shares authorized, of which 21,656 in 2001 and 18,528 in 2000 were issued and outstanding.

	Common shares	
	Outstanding (000's)	Amount
Balance, January 1, 1999	7,077	$ 16,624
Repurchase	(577)	(4,147)
Issued for cash	9,104	65,534
Purchase of subsidiaries	2,704	30,331
Balance, December 31, 1999	18,308	108,342
Repurchase	(288)	(1,794)
Purchase of subsidiaries	508	4,882
Balance, December 31, 2000	18,528	111,430
Issued for cash	440	3,621
Issued for executive share purchase plan (net of repurchases)	164	1,886
Purchase of subsidiaries	2,474	8,091
Issuable for contingent consideration	50	478
Balance, December 31, 2001	21,656	$125,506

During 2000, under terms of normal course issuer bids approved by The Toronto Stock Exchange, the Company purchased and cancelled 226 common shares for an aggregate cost of $1,996, of which $649 was charged to retained earnings.

On January 22, 1999, the Company issued 2,838 Special Warrants for cash of $24,282. Holders of Special Warrants were entitled to receive, upon exercise and without payment of any further consideration, one common share of the Company for each Special Warrant held. These warrants were exercised on February 10, 1999.

On January 29, 1999, the Company filed a prospectus with applicable regulatory authorities in each of the provinces of Canada for the offering and issuance of 866 common shares of the Company for cash of $7,406. The offering closed on February 10, 1999. Shares issued for cash of $65,534 is net of issue costs of $376.

Cumulative translation account

	2001	2000
Balance at January 1	$ 195	$ (831)
Translation of self-sustaining foreign operations	9,479	1,335
Translation of debt financing self-sustaining foreign operations	(6,904)	(309)
Balance at December 31	$ 2,770	$ 195

11. Fair value of financial instruments

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities at December 31, 2001 and 2000, approximate fair value because of the short maturity of these instruments. The carrying value of the Company's variable rate debt of $105,300 approximates fair market value.

The fair value of the Company's subordinated convertible debentures is not determinable. The carrying values of put options and other long-term debt approximate fair values.

12. Income taxes

The provision for income tax expense differs from the result that would have been obtained by applying the combined Canadian statutory federal and provincial income tax rate of 41.7%—2001, 44.0%—2000, 44.5%—1999, as follows:

	2001	2000	1999
Provision for tax at statutory rates	$ 6,366	$ 5,058	$3,467
Non-deductible amortization of goodwill	1,579	994	588
Income earned outside Canada	(3,170)	(1,148)	(44)
Other	487	466	41
Provision for tax	$ 5,262	$ 5,370	$4,052

The components of the future tax assets and liabilities at December 31, 2001 and 2000, were as follows:

	2001	2000
Future income tax assets		
Loss carryforwards	$ 1,886	$ 166
Non-deductible book reserves	1,602	—
Deferred compensation	879	—
Other	303	202
Total future income tax assets	4,670	368
Less: current portion future income tax assets	(1,999)	—
Future income tax assets	$ 2,671	$ 368
Future income tax liabilities		
Goodwill and other intangible asset amortization	$ 3,663	$ 712
Other accrual adjustments	1,309	—
Capital asset depreciation	169	181
Other	838	(141)
Total future income tax liabilities	5,979	752
Less: current portion future income tax liabilities	(1,387)	—
Future income tax liabilities	$ 4,592	$ 752

The Company has Canadian net operating loss carryforwards of $2,425 at December 31, 2001 that expire 2007 through 2008. In addition, the Company has various state and local net operating loss carryforwards in the U.S. of approximately $9,100, which expire 2016 through 2021. Such net operating losses are currently available to offset certain future state and local taxable income. As a result of an ownership change, there are annual limitations imposed upon the utilization of these losses, and accordingly, a valuation allowance in the amount of approximately $1,400 has been established where we do not believe the net operating losses will be realized.

Valuation allowance January 1, 2001	$ —
Acquired through acquisitions	1,461
Valuation allowance December 31, 2001	1,400
Change in the period	$ 61
Average state and local tax rate	10%
Charged to provision for income tax expense for the year ended December 31, 2001	$ 6

13. Interest and income taxes paid

Interest and income taxes paid were for the years ending December 31:

	2001	2000	1999
Interest paid	$6,818	$2,606	$ 632
Income taxes paid	$3,444	$7,528	$4,264

14. Pro forma results of acquisitions (unaudited)

The following table reflects the results of our operations, on a pro forma basis, as if the 2001 acquisitions of Burnham, Flanagan and Kaye had been completed on January 1, 2000, and the 2000 acquisition of McCarthy had been completed on January 1, 2000. The 1999 acquisitions have not been presented due to the significant number of individually immaterial acquisitions.

	2001	2000
Total revenue	**$163,317**	$172,541
Net earnings (loss) before income taxes	**$ 16,321**	$ (2,287)
Net earnings (loss) from operations	**$ 11,440**	$ (3,388)
Net earnings (loss) from operations per share		
Basic	**$ 0.56**	$ (0.18)
Diluted	**$ 0.53**	$ (0.16)
Weighted average shares outstanding		
Basic (000's)	**20,387**	19,231
Diluted (000's)	**21,480**	21,654

The pro forma adjustments for 2001 and 2000 include adjustments to remove non-recurring expenses incurred by the brokerages acquired in connection with the purchase transactions by the Company, as well as adjustments to reflect the Company's cost of borrowings as if the 2001 acquisitions of Burnham, Flanagan and Kaye had been completed on January 1, 2000, and the 2000 acquisition of McCarthy had been completed on January 1, 2000.

15. Segmented information

The Company is an international insurance brokerage which provides a variety of property and casualty, life and health, employee benefits, investment and risk management products and services. In addition to its Corporate Operations, the Company has identified two operating segments within its insurance brokerage business; Canadian Operations and U.S. Operations. Corporate Operations consist primarily of investment income, unallocated administrative costs, interest expense and the income tax expense or benefit which is not allocated to the Company's operating segments. The elimination of intra-segment revenue relates to intra-company interest charges and management fees.

Geographic revenue is determined based upon the functional currency of the various subsidiaries. Financial information by operating and geographic segment for 2001, 2000 and 1999 is as follows:

	2001			2000			1999		
	Canada	U.S.	Consol-idated	Canada	U.S.	Consol-idated	Canada	U.S.	Consol-idated
Revenue									
Brokerage	$ 78,488	$ 75,458	$153,946	$ 74,710	$19,864	$ 94,574	$ 50,944	$ 1,535	$ 52,479
Corporate and other	16,960	237	17,197	7,953	5,142	13,095	4,029	—	4,029
Elimination of intra-segment revenue	(16,884)	(266)	(17,150)	(7,427)	(5,002)	(12,429)	(2,411)	—	(2,411)
	$ 78,564	$ 75,429	$153,993	$ 75,236	$20,004	$ 95,240	$ 52,562	$ 1,535	$ 54,097
Net earnings before income taxes									
Brokerage	$ 6,625	$ 13,200	$ 19,825	$ 8,017	$ 3,242	$ 11,259	$ 5,727	$ (236)	$ 5,491
Corporate and other	6,126	(10,684)	(4,558)	3,771	(3,522)	249	2,510	(205)	2,305
	$ 12,751	$ 2,516	$ 15,267	$ 11,788	$ (280)	$ 11,508	$ 8,237	$ (441)	$ 7,796
Income taxes									
Brokerage	$ 3,910	$ 5,793	$ 9,703	$ 4,930	$ 1,339	$ 6,269	$ 3,274	$ (65)	$ 3,209
Corporate and other	(322)	(4,119)	(4,441)	412	(1,311)	(899)	994	(151)	843
	$ 3,588	$ 1,674	$ 5,262	$ 5,342	$ 28	$ 5,370	$ 4,268	$ (216)	$ 4,052
Net earnings									
Brokerage	$ 2,715	$ 7,407	$ 10,122	$ 3,087	$ 1,903	$ 4,990	$ 2,453	$ (171)	$ 2,282
Corporate and other	6,448	(6,565)	(117)	3,359	(2,211)	1,148	1,516	(54)	1,462
	$ 9,163	$ 842	$ 10,005	$ 6,446	$ (308)	$ 6,138	$ 3,969	$ (225)	$ 3,744
Identifiable assets									
Brokerage	$109,896	$319,989	$429,885	$129,899	$63,116	$193,015	$117,038	$32,070	$149,108
Investment held for sale	—	40,772	40,772	—	—	—	—	—	—
Corporate and other	28,212	3,427	31,639	8,309	4,833	13,142	20,247	1,847	22,094
	$138,108	$364,188	$502,296	$138,208	$67,949	$206,157	$137,285	$33,917	$171,202
Amortization	$ 2,316	$ 2,624	$ 4,940	$ 2,482	$ 778	$ 3,260	$ 1,547	$ 79	$ 1,626
Additions to capital assets	$ 1,624	$ 9,910	$ 11,534	$ 2,190	$ 205	$ 2,395	$ 1,225	$ 83	$ 1,308
Depreciation	$ 1,755	$ 2,185	$ 3,940	$ 1,619	$ 266	$ 1,885	$ 1,211	$ 64	$ 1,275
Interest revenue	$ 805	$ 1,188	$ 1,993	$ 977	$ 704	$ 1,681	$ 724	$ 83	$ 807
Interest expense	$ 6,337	$ 1,110	$ 7,447	$ 1,920	$ 61	$ 1,981	$ 425	$ 207	$ 632

16. Related party transactions

The Company had transactions with and recorded commission income from the following related parties:

	2001	2000	1999
Lombard General Insurance Company of Canada	$6,123	$7,527	$6,077
Commonwealth Insurance Company	374	351	353
Federated Insurance Company of Canada	28	10	1
Markel Insurance Company of Canada	88	72	61
Crum & Forster Insurance	745	291	67
TIG Specialty Insurance	150	—	—
	$7,508	$8,251	$6,559

As of December 31, 2001, the Company had accounts receivable and accounts payable balances with the above related parties in the amounts of $271 and $6,839 (2000—$269 and $3,605), respectively. All revenue and related accounts receivable and accounts payable are the result of transactions in the normal course of business. The companies are related through common ownership by Fairfax, which owns approximately 37% of the Company's common shares.

As of December 31, 2001, long-term debt related to put options and certain subordinated convertible debentures are due to related parties.

During 2001 and 2000, the Company incurred expenses related to rental of premises from related parties in the amount of $1,373 and $993, respectively. At December 31, 2001 and 2000, the Company also had accounts receivable due from related parties in the amount of $4,586 and $2,320, respectively, of which the majority were loans to employees to enable them to purchase shares of the Company.

17. Reconciliation to United States GAAP

The consolidated financial statements have been prepared in accordance with Canadian GAAP which differs in certain respects from United States GAAP. The following represents the principal differences affecting net earnings:

	2001	2000	1999
Net earnings for the year based on Canadian GAAP	**$10,005**	$ 6,138	$3,744
Adjustment to investment held for sale (1)	**520**	—	—
Change in reporting currency (2)	**158**	366	233
Net earnings for the year based on U.S. GAAP (3)	**10,683**	6,504	3,977
Other comprehensive income			
Unrealized gains (losses), net of tax of $226—2001, ($112)—2000, ($25)—1999	**(370)**	183	41
Less: reclassification adjustment, net of tax of ($112)—2001, $0—2000	**(182)**	(1)	—
Foreign currency translation adjustment, net of tax of ($2,478)—2001, $1,294—2000, ($1,514)—1999	**3,718**	(1,940)	2,272
Comprehensive income based on U.S. GAAP (4)	**$13,849**	$ 4,746	$6,290
Basic earnings per share based on U.S. GAAP	**$ 0.56**	$ 0.35	$ 0.23
Diluted earnings per share based on U.S. GAAP	**$ 0.53**	$ 0.35	$ 0.23

The effect of these adjustments on shareholders' equity is as follows:

	2001	2000
Shareholders' equity based on Canadian GAAP	**$135,271**	$112,212
Adjustment to investment held for sale (1)	**520**	—
Accumulated other comprehensive income:		
Unrealized gains (losses), net of tax of ($89)—2001, $136—2000	**(146)**	224
Cumulative translation account (2)	**(1,864)**	5,582
Executive share purchase plan loan (5)	**(2,142)**	—
Shareholders' equity based on U.S. GAAP (3)	**$131,639**	$118,023

(1) Under Canadian GAAP, Old Lyme is treated as an investment held for sale at its June 28, 2001 cost of $40,772. Under U.S. GAAP, Old Lyme is reflected at its fair market value, which is equal to its U.S. GAAP shareholder's equity at December 31, 2001 pursuant to the pending sale of Old Lyme. Accordingly, under U.S. GAAP, the investment in Old Lyme has been increased to reflect the net increase in its shareholder's equity from the date of acquisition. This adjustment is treated as a purchase price adjustment to the Kaye acquisition and results in an increase of $2,075 in the investment in Old Lyme and a corresponding decrease in goodwill, with no effect on net earnings or shareholders' equity. Under Canadian GAAP, interest on debt used to finance the Old Lyme acquisition in the amount of $520 (net of tax) is charged to earnings. Under U.S. GAAP, the interest expense on the debt incurred to finance the purchase of Old Lyme is applied to the carrying value of the investment and does not affect the net earnings of the Company.

(2) Under Canadian GAAP, the Company's consolidated financial statements have historically been expressed in Canadian dollars. Effective September 30, 2001, the Company adopted the U.S. dollar as its reporting currency. Comparative financial information has been restated in U.S. dollars using the translation of convenience method. At September 30, 2001, all historical financial statements were converted from Canadian to U.S. dollars at the exchange rate in effect at September 30, 2001 of one Canadian dollar to 0.6338 U.S. dollar. Revenue and expenses subsequent to September 30, 2001 were translated to U.S. dollars at the average exchange rate for the period.

Under U.S. GAAP, historical financial statements are translated using a current exchange rate; which for assets and liabilities is the exchange rate at the balance sheet date; for the income statement is the average exchange rate for the period; and for share capital accounts is the historical exchange rate.

In addition, foreign exchange differences under U.S. GAAP are included in the cumulative translation account net of tax. The aggregate impact of these differences has been presented in the reconciliation of shareholders' equity for Canadian to U.S. GAAP under the caption "cumulative translation account."

(3) The consolidated statements of earnings and cash flows for the years ended December 31, 2001, 2000 and 1999 and condensed balance sheets as at December 31, 2001 and 2000 under U.S. GAAP are as follows:

	2001	2000	1999
Revenue	**$ 156,781**	$100,919	$ 57,458
Net earnings before income taxes	**$ 16,042**	$ 12,195	$ 8,281
Net earnings	**$ 10,683**	$ 6,504	$ 3,977
Cash provided by operating activities	**$ 44,980**	$ 13,563	$ 5,377
Cash used in investing activities	**$(130,687)**	$ (18,914)	$(37,886)
Cash provided by financing activities	**$ 130,881**	$ 5,904	$ 63,949
Total current assets	**$ 225,485**	$ 81,518	
Total assets	**$ 499,381**	$216,834	
Total current liabilities	**$ 224,968**	$ 63,839	
Total liabilities	**$ 367,742**	$ 98,811	
Total shareholders' equity	**$ 131,639**	$118,023	

(4) Comprehensive income is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners and includes the change in unrealized gains (losses) and foreign currency translation adjustments, which under Canadian GAAP are not recognized and recorded as a separate component of shareholders' equity, respectively. Certain disclosures required by SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," have not been included as such disclosures related to the Company's investments in debt and equity securities are immaterial to the overall financial statement presentation.

(5) Under Canadian GAAP, loans granted by the Company to employees under the executive share purchase plan are treated as a receivable and included in the balance sheet caption "Accounts and other receivables." Under U.S. GAAP, those loans receivables must be included as a reduction to shareholders' equity.

Effects of New U.S. GAAP Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations subsequent to June 30, 2001 be accounted for in accordance with the purchase method of accounting, as well as specifies criteria for recognizing intangible assets acquired in a purchase business combination. SFAS No. 142 eliminates the amortization of goodwill, requires annual impairment testing of goodwill, and introduces the concept of definite and indefinite life intangible assets. Indefinite life intangible assets, similar to goodwill, will no longer be amortized and will be tested at least annually for impairment. Definite life intangible assets will be amortized over the estimated useful life of the asset. SFAS No. 142 must be adopted on January 1, 2002.

Although the Company has not completed its assessment of these new accounting standards, it expects that the provisions of SFAS No. 142 related to accounting for goodwill and other intangible assets will have a significant impact on its consolidated earnings in 2002, as goodwill will no longer be amortized and charged to income when compared to consolidated earnings for years prior to 2002. The Company is reviewing the impairment testing provisions of these standards, and based on current conditions, does not expect to incur a material transition goodwill impairment charge as of January 1, 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective for fiscal years beginning after December 15, 2001. This Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB No. 30).

SFAS No. 144 generally retains the basic accounting model for the identification and measurement of impairments to long-lived assets to be held, and long-lived assets to be disposed. SFAS No. 144 broadens the definition of "discontinued operations," as previously defined by APB No. 30, but does not allow for the accrual of future operating losses, as was previously permitted under that standard. SFAS No. 144 also addresses several implementation and financial statement presentation issues not previously addressed under U.S. GAAP. SFAS No. 144 excludes from its scope financial accounting and reporting for the impairment of goodwill and other intangible assets.

The transitional guidance of SFAS No. 144 generally permits long-lived assets classified as held for disposal as a result of disposal activities that were initiated prior to SFAS No. 144's initial application to continue to be accounted for in accordance with the prior pronouncement applicable for that disposal. As such, our investment in Old Lyme, which is classified as held for disposal at December 31, 2001, will continue to be accounted for in accordance with Canadian and U.S. generally accepted accounting principles applicable at the date that the disposal activities were initiated. In the event that the sale of Old Lyme is not completed by December 31, 2002, the investment will be reclassified as held for use in operations, in accordance with the provisions of SFAS No. 144.

Canadian GAAP has not been harmonized with U.S. GAAP related to the provisions of SFAS No. 144. Accordingly, any impact related to the adoption of the provisions of SFAS No. 144 will be treated as a reconciling item between U.S. and Canadian GAAP. However, we do not anticipate that the provisions of SFAS No. 144 will have a material impact on our financial position or results of operations as reported under U.S. GAAP.

18. Quarterly data (unaudited)

Year ended December 31,

	2001					2000				
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Revenue	$28,096	$29,342	$43,601	$52,954	$153,993	$23,205	$23,080	$24,504	$24,451	$95,240
Net earnings	$ 2,467	$ 2,558	$ 2,029	$ 2,951	$ 10,005	$ 2,302	$ 2,093	$ 1,184	$ 559	$ 6,138
Net earnings per share—Basic	$ 0.13	$ 0.14	$ 0.11	$ 0.15	$ 0.53	$ 0.13	$ 0.12	$ 0.06	$ 0.03	$ 0.34
Net earnings per share—Diluted	$ 0.13	$ 0.14	$ 0.09	$ 0.14	$ 0.50	$ 0.13	$ 0.12	$ 0.06	$ 0.03	$ 0.34

Auditors' Report to the Board of Directors and Shareholders of Hub International Limited:

We have audited the accompanying consolidated balance sheets of Hub International Limited and its subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of earnings, retained earnings (deficit) and cash flows for each of the years in the three year period ended December 31, 2001, all expressed in United States of America dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada and in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hub International Limited and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001, in accordance with accounting principles generally accepted in Canada.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario, Canada
March 18, 2002

Stock Information

Stock prices

Below are The Toronto Stock Exchange high, low and closing prices of the Company's common shares and cash dividends declared for each quarter in Canadian dollars:

Year ended December 31,

	2001				2000			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
High	**$20.00**	**$18.00**	**$17.25**	**$15.75**	$18.00	$16.00	$14.60	$13.00
Low	**$12.00**	**$15.75**	**$13.75**	**$13.00**	$13.50	$13.00	$10.00	$ 9.50
Close	**$16.75**	**$16.00**	**$15.12**	**$15.25**	$16.00	$15.00	$12.00	$13.00
Cash dividends declared per share	**$ 0.07**	**$ 0.07**	**$ 0.07**	**$ 0.07**	$ 0.00	$ 0.07	$ 0.07	$ 0.07

DIRECTORS OF THE COMPANY

Martin P. Hughes
Chairman & Chief Executive Officer

Richard A. Gulliver
President & Chief Operating Officer

R. Craig Barton
President & Chief Executive Officer
Barton Insurance Brokers Ltd.

Anthony Griffiths*
Independent Consultant &
Corporate Director

John Varnell*
Vice President
Fairfax Financial Holdings Limited

Bruce D. Guthart
President & Chief Executive Officer
Kaye Group Inc.

Jean Martin
President & Chief Executive Officer
Martin Assurance & Gestion de
Risques Inc.

Paul Murray*
President, Pinesmoke Investments

*Member of Audit Committee

OFFICERS OF THE COMPANY

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Chairman & Chief Executive Officer

Richard A. Gulliver
President & Chief Operating Officer

Bruce D. Guthart
President, United States Operations

R. Craig Barton
President, Canadian Operations

Dennis J. Pauls
Vice President &
Chief Financial Officer

W. Kirk James
(Investor Relations Contact)
Vice President, Secretary &
General Counsel

John Varnell
Vice Chairman

John R. Curran
Vice President, Marketing

Jean Martin
Vice President

Peter Scavetta
Vice President, Finance

Darlene J. Jacus
Chief Information Officer

Deborah K. Wilson
Chief Technology Officer

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PricewaterhouseCoopers LLP

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company

SHARE LISTING

The Toronto Stock Exchange
Stock Symbol HBG

EXECUTIVE COMMITTEE

R. Craig Barton
President & Chief Executive Officer
Barton Insurance Brokers Ltd.

Charles C. Burnham
President & Chief Executive Officer
Burnham Insurance Group, Inc.

John R. Curran
Vice President, Marketing
Hub International Limited

Joseph P. Flanagan
President
Mack and Parker, Inc.

Richard A. Gulliver
President & Chief Operating Officer
Hub International Limited

Bruce D. Guthart
President, Chairman &
Chief Executive Officer
Kaye Group Inc.

Martin P. Hughes
Chairman & Chief Executive Officer
Hub International Limited

W. Kirk James
Vice President, Secretary &
General Counsel
Hub International Limited

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Risques Inc.

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Chairman
C.J. McCarthy Insurance Agency, Inc.

Dennis J. Pauls
Vice President &
Chief Financial Officer
Hub International Limited

Nelson Tilander
President & Chief Operating Officer
The Hub Group (Ontario) Inc.

ANNUAL MEETING

The annual meeting of the shareholders of Hub International Limited will be held on Friday, May 10, 2002 at 10:00 a.m. at The Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Ontario

Designed by Curran & Connors, Inc. / www.curran-connors.com

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